

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Reporting Entity**

The reporting entity "King County" consists of King County Government as the primary government; the Harborview Medical Center (HMC) and the Washington State Major League Baseball Stadium Public Facilities District (PFD) as "discretely presented" component units; and the Flood Control Zone Districts as "blended" component units. Most funds in this report pertain to the entity King County Government or component units. Certain Agency Funds, referred to as Agency Funds – Special Districts/Other Governments, pertain to the County's custodianship of assets belonging to independent governments and special districts. Under the County's Home Rule Charter, the King County Executive is the *ex officio* treasurer of all special districts of King County, but not of the cities and towns. Pursuant to County ordinance, the Director of the Finance and Business Operations Division (FBOD) is responsible for the duties of the comptroller and treasurer. Monies received from or for the special districts are deposited in a central bank account. The Director of the FBOD invests or disburses money pursuant to the instructions of the respective special districts.

**Component Units**

**Harborview Medical Center (HMC)**

The Harborview Medical Center (HMC), a 413 licensed-bed hospital with extensive ambulatory services, is located in Seattle, Washington. HMC is managed by the University of Washington (UW). The HMC Board of Trustees is appointed by the County Executive. The County Manager of the Finance and Business Operations Division is the treasurer of HMC. HMC staff members are employees of UW. The management contract between the HMC Board of Trustees and the UW Board of Regents recognizes the Trustees' desire to maintain HMC as a means of meeting the King County Government's obligation to provide the community with a resource for health services, and UW's desire that HMC be maintained as a continuing resource for education, training, and research. The general conditions of the management contract specify that King County retains title to all real and personal property acquired for King County with HMC capital or operating funds. The Trustees determine major institutional policies and retain control of programs and fiscal matters. The Trustees agree to secure UW's recommendations on any changes to the above. The Trustees are accountable to the public and King County Government for all financial aspects of HMC's operation and agree to maintain a fiscal policy that keeps the operating program and expenditures of HMC within the limits of operating income.

HMC is a component unit of the County for the following reasons: (1) it is a separate legal entity having its own corporate powers; (2) the County Executive appoints HMC's Board of Trustees, who may be removed only for statutorily defined causes and subject to legal appeal; and (3) although the County cannot impose its will on HMC, the unit creates a financial burden on the County because the County is responsible for the issuance and debt service of all general obligation bonds for HMC capital improvements. HMC's financial presentation is on the discrete component unit basis because the County and HMC's governing bodies are not substantively the same, and HMC does not provide services solely to King County. HMC financial data is as of its fiscal year-end, June 30, 2002, rather than the County's fiscal year-end of December 31, 2002.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

Although the primary classification of HMC in this report is that of a component unit, the County is the issuer of HMC's general obligation bonds. Therefore, Note 12, "Debt," reports on all the general obligation bonds issued by the County as of December 31, 2002, including bonds reported by HMC as a component unit as of June 30, 2002.

HMC hires independent auditors other than the County's independent auditors and prepares its own audited financial statements. These statements may be obtained from the Finance Section of the Harborview Medical Center, 325 9th Ave., Seattle, Washington, 98104.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) is the agency created by the Metropolitan King County Council on October 24, 1995, as authorized under chapter 36.100 Revised Code of Washington (RCW). The PFD operates as a municipal corporation of the State of Washington and was formed to site, design, build, and operate the major league baseball park. The PFD is governed by a seven-member board of directors, four of whom are appointed by the County Executive. The other three are appointed by the Governor of the State of Washington. The County, as the *ex officio* treasurer for the PFD, maintains several funds to account for construction, debt redemption, and special revenue collection. Construction was financed by a 1997 general obligation bond issue and contributions from the Baseball Club of Seattle. Debt service on the bonds is supported by sales and use taxes, sales and use tax credits, special lottery proceeds, special license plate sales, and an admissions tax. The stadium was completed in 1999 and is reported as an asset of the PFD.

The PFD is a component unit of the County for the following reasons: (1) it is a separate legal entity; (2) a majority of its board of directors (4 of 7) is appointed by the County Executive; and (3) there exists an indirect financial burden relationship between the PFD and the County since the County issued the bonds for the construction of the stadium, thereby making the County ultimately responsible for the debt. The PFD's financial statements are discretely presented because the two governing boards are not substantively the same and the PFD does not provide services solely to King County government.

The PFD reports on a fiscal year-end consistent with the King County primary government. It issues its own financial statements as audited by the State Auditor's Office. These statements may be obtained from the Public Facilities District, 110 South Atlantic Street, Seattle, Washington, 98134.

Flood Control Zone Districts (FCZD)

There are four Flood Control Zone Districts (FCZD) in King County that are administered by the Surface Water Management Division of the Department of Natural Resources and Parks. Only the Green River District is currently active. FCZD were created to manage surface water runoff within district boundaries. The King County Council members are *ex officio* members of the Board of Supervisors for each FCZD and the County Engineer serves as the FCZD engineer. An FCZD can assist in the construction and maintenance of dikes, drainage systems, dams and reservoirs as well as widening, straightening, and relocating water courses.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

FCZD are component units of the County for the following reasons: (1) they are legally separate entities established as quasi-municipal corporations and independent taxing authorities; (2) King County, in effect, appoints the voting majority of the FCZD board because the County Council members are the *ex officio* supervisors of each FCZD; and (3) the County can impose its will on the FCZD. FCZD financial presentation is on a blended basis because the two governing boards are substantively the same. They are classified as Special Revenue funds and do not issue independently audited financial statements.

**Joint Venture**

The Seattle-King County Workforce Development Council (WDC) is a joint venture between King County and the City of Seattle. It was established as a non-profit corporation in the State of Washington on July 1, 2000, as authorized under the Workforce Investment Act of 1998. It functions as the United States Department of Labor pass-through agency to receive the employment and training funds for the Seattle-King County area. The King County Executive and the Mayor of the City of Seattle, serving as the chief elected official (CEO) of the local area, have the joint power to appoint the members of the WDC board of directors and the joint responsibility for administrative oversight. An ongoing financial responsibility exists because the CEO is potentially liable to grantors for disallowed costs. If expenditure of funds is disallowed by a grantor agency, the WDC can recover the funds from (in order): (1) the agency creating the liability; (2) the insurance carrier; (3) future program years; and (4) as a final recourse, from King County and the City of Seattle, each being responsible for one-half of the disallowed amount. As of December 31, 2002, there are no outstanding program eligibility issues that might lead to a King County liability.

The WDC contracts with King County, which provides programs related to dislocated workers, welfare to work, and workforce centers. For the year 2002 WDC reimbursed King County approximately \$9.7 million in eligible program costs.

The WDC issues independent financial statements that may be obtained from the Workforce Development Council located at 2003 Western Avenue, Suite 250, Seattle, WA, 98121-2162.

**Related Organizations**

The King County Library System (KCLS) and the Library Capital Facility District (LCFD) are legally separate entities, though both organizations are related to King County. The County Council appoints a majority of the board of the KCLS and selected Council members make up the 3-member board of the LCFD. There is, however, no evidence that the Council can influence the programs and activities of either organization or that either organization creates a financial benefit or burden to the County. For these reasons, the KCLS and LCFD are related organizations. The County serves as the treasurer for these special districts, providing services such as tax collection and warrant issuance. Due to this fiduciary relationship, these districts are routinely reported as agency funds of the County.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

from these statements. Exceptions to this general rule include interfund services provided and used between functions, which are not eliminated because to do so would misstate both the expenses of the purchasing function and the program revenues of the selling function. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operation or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Basis of Accounting, Measurement Focus, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of, the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The County has elected not to follow subsequent private sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted resources first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, such as Retail Sales and Use Taxes. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Major Governmental Funds

The County reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

The Public Health Fund is used to finance health service centers located throughout King County and all Public Health programs. The Public Health Fund supports four of the department's five lines of business including clinical health services/primary care assurance; management & business practice; population & environmental health services; and targeted community health services. The fifth line of business is emergency medical services, which is supported by a separate Emergency Medical Services Fund.

Major Proprietary Funds

The County reports the following major proprietary funds:

The Public Transportation Enterprise accounts for the operations, maintenance, capital improvements and expansion of public transportation facilities in King County under the King County Transit Division. Primary revenue sources include sales tax and passenger service fees. Construction is funded through bonds and federal grants.

The Water Quality Enterprise accounts for the operations, maintenance, capital improvements and expansion of the County's water pollution control facilities under the King County Wastewater Treatment Division. Two major treatment plants exist - the West Point Treatment Plant in Seattle and the East Division Reclamation Plant in Renton. Major construction projects are funded through revenue bonds which require maintenance of significant reserves.

Nonmajor Governmental Funds:

Special Revenue Funds are used to account for a variety of County programs including alcoholism and substance abuse; arts; automated fingerprint identification system; community development; road maintenance; emergency medical services; enhanced 911 emergency telephone system; local hazardous waste management; mental health services; surface water management; and other services.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

Debt Service Funds are used by the County to account for the accumulation of resources for, and the payment of, principal and interest on the County's general obligation bonds.

Capital Projects Funds are used to account for the acquisition, construction, and remodeling of public buildings including arts and historic preservation projects; County facilities renovation projects; open space acquisition; road construction; farmland preservation; health clinic projects; surface and storm water management projects; technology systems; and other projects.

Nonmajor Proprietary Funds:

Enterprise Funds are used to account for the County's business-type operations including the King County International Airport, solid waste disposal facilities, and other services.

Internal Service Funds are used to account for the provision of motor pool, data processing, risk management, construction and facilities management, financial, employee benefits programs, and other services provided by one department or agency to other departments or agencies of the County on a cost reimbursement basis. Two internal service funds, the Transit Nonrevenue Vehicle (NRV) Equipment Rental and Wastewater Equipment Rental Funds have only one customer each, the Public Transportation Enterprise and Water Quality Enterprise, respectively. Accordingly, these two funds are reported as Internal Service Funds – Business-type Activities on the proprietary funds basic statements

Fiduciary Funds

Investment Trust Funds are used to report investment activity conducted by King County on behalf of legally separate entities such as special districts and public authorities that are not part of the County's reporting entity.

King County recognizes two major classifications of Agency Funds: (1) those used with the operations of county government such as Undistributed Taxes Fund and Accounts Payable Clearing Fund; and (2) those which account for cash received and disbursed in the County's capacity as *ex officio* treasurer or collection agent for special districts and other governments such as School Districts and Fire Districts.

**Terminology**

General Revenues and General Governmental Expenditures

General revenues and general governmental expenditures used in this report are total revenues and expenditures for three governmental fund types: (1) the General Fund, (2) Special Revenue Funds; and (3) the Debt Service Funds. The revenues and expenditures for all other fund types are excluded from these amounts.

Expenditure Functions and Characters

General Government Services - A class of services provided by the legislative and administrative branches of the government entity for the benefit of the public or governmental body as a whole. This function includes the County Council, County Executive, Office of

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

Management and Budget, Information and Administrative Services, Records and Elections, Human Resource Management, and Assessments.

Law, Safety and Justice - A class of services essential to the safety of the public, including expenditures for law enforcement, detention and/or correction, judicial operations, protective inspections, emergency services, and juvenile services. This function includes the Sheriff's Office, Prosecuting Attorney, Superior Court, District Court, Public Defense, Judicial Administration, Adult and Juvenile Detention, and Emergency Medical Services.

Physical Environment - A class of services provided to achieve a satisfactory living environment for the community and the individual. This function includes Natural Resources, River Improvement, Animal Control, Surface Water Management, and River and Flood Control Construction.

Transportation - A class of services provided by the governmental entity for the safe and adequate flow of vehicles and pedestrians that includes expenditures for road and street construction, maintenance, general administration, and transportation facilities and systems. This function includes County Road, Arterial Highway Development, Renton Maintenance Facilities Construction, and County Road Construction.

Economic Environment - A class of services provided for the development of, and improvement in, the welfare of the community and individual that includes expenditures for employment opportunity and development, veterans' services, childcare services, and aging and handicapped services. This function includes Veterans' Relief, Youth Employment Programs, Office of Aging, Women's Programs, Development and Environmental Services, and Planning and Community Development.

Mental and Physical Health - A class of services provided for the care, treatment and control of mental and physical illnesses that includes expenditures for hospitals, public health, inquests, community mental health, drug abuse, alcoholism treatment, and developmental disabilities. This function includes Medical Examiner, Developmental Disabilities, Mental Health, Alcohol and Substance Abuse Services, Public Health, and Cedar Hills Construction.

Culture and Recreation - A class of services provided to increase the individual's understanding and enjoyment including expenditures for education, libraries, community events, participant recreation, park facilities, and cultural and recreational facilities. This function includes Parks, Cooperative Extension Service, and various Park Capital Project Funds.

Debt Service - A character of expenditure that accounts for the redemption of general long-term debt principal and interest and other debt service costs in the General, Special Revenue, Debt Service, and Capital Projects Funds and payments to escrow agents other than refunding bond proceeds.

Capital Outlay - A character of expenditure that accounts for expenditures related to capital projects and expenditures for capital assets acquired by outright purchase and by capital lease financing agreements.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

Certain Accounts are Grouped on the Statement of Net Assets:

- The asset account *Receivables, net* combines Taxes Receivable – delinquent; Accounts Receivable, net; Other Receivables, net; Interest receivable; Notes/contracts receivable; and Due from other governments, net.
- The asset account *Other restricted assets – construction* combines Grants and LID receivable.
- The asset account *Other restricted assets – bond* consists of Lease deposits (CD denominated in yen).
- The asset account *Deferred charges* combines Deferred charges – environmental remediation costs, Deferred charges – issuances costs, and Due from employees.
- The liability account *Accounts payable and other current liabilities* combines Accounts payable, Due to other governments, Taxes payable, Contracts payable, Custodial accounts, and other liabilities.
- The liability account *Accrued liabilities* combines Wages payable, Interest payable, and Excess earnings liabilities.
- The liability account *Noncurrent liabilities* includes Estimated claim settlements, General obligation bonds, Special assessment bonds, Revenue bonds payable, Capital leases, State revolving loan payable, and Compensated absences, Environmental and property remediation, Unamortized premium on bonds sold, Deferred charges – refunding losses and other liabilities.



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**Analysis of Estimated Uncollectible Accounts Receivable

Receivables for governmental funds are reported net of estimated uncollectible amounts in the basic financial statement, Balance Sheet - Governmental Funds. The schedule below shows receivables at gross with the related estimated uncollectible accounts.

	GENERAL FUND	PUBLIC HEALTH FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
Receivables				
Accounts receivable	\$ 49,484,661	\$ 22,482,878	\$ 24,081,622	\$ 96,049,161
Estimated uncollectible accounts receivable	(42,557,260)	(21,545,772)	(4,087,156)	(68,190,188)
Accounts receivable, net	<u>\$ 6,927,401</u>	<u>\$ 937,106</u>	<u>\$ 19,994,466</u>	<u>\$ 27,858,973</u>
Other receivables				
Abatements receivable	\$ -	\$ -	\$ 283,418	\$ 283,418
Estimated uncollectible abatements receivable	-	-	(212,563)	(212,563)
Assessments receivable - current	-	-	177,765	177,765
Assessments receivable - delinquent	-	-	7,390	7,390
Assessments receivable - deferred	-	-	464,261	464,261
Accrued interest/penalty receivable - delinquent assessments	-	-	5,305	5,305
Other receivables, net	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 725,576</u>	<u>\$ 725,576</u>
Due from other governments	\$ 23,610,688	\$ 18,772,196	\$ 49,750,324	\$ 92,133,208
Estimated uncollectible due from other governments	(260,169)	-	-	(260,169)
Due from other governments, net	<u>\$ 23,350,519</u>	<u>\$ 18,772,196</u>	<u>\$ 49,750,324</u>	<u>\$ 91,873,039</u>

**Cash and Cash Equivalents**

Cash and cash equivalents consists of the following accounts: Cash and pooled investments, Petty cash/change funds, Cash with escrow agent, and Cash held in trust. Since 2000, overnight investments held in Water Quality bond reserve sub-funds were reported as cash and cash equivalents. During 2002, all Water Quality bond reserve sub-funds became part of the investment pool.

All county funds and component units and most special districts participate in an external investment pool maintained by the King County Treasury Operations Section. (See Note 4, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements" — External Investment Pool.) The investment pool consists of internal and external portions. For investment pool participants, the pool functions essentially as a demand deposit account

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

where participants receive an allocation of their proportionate share of pooled earnings. Each fund's equity share of the internal portion of the pool's net assets is reported on the balance sheet as Cash and cash equivalents and reflects the change in fair value of the corresponding investment securities. Included in the internal portion of the pool is the investment of short-term cash surpluses not otherwise invested by individual funds. The interest earnings related to this investment of short-term cash surpluses are allocated to the General Fund in accordance with legal requirements and are used in financing general County operations.

**Investments**

In addition to pooled investments described under Cash and Cash Equivalents, King County holds other investments in qualified public depositories for County government and special districts for which, either by Washington state law or by contract, King County is the custodian. Monies are invested as directed by the governing authority for the fund or agency and proceeds are returned to the investing fund.

Investments purchased for individual funds, regardless of length of maturity, are reported as Investments. Those attributed to both the external portion of the investment pool and those in individual investment accounts are classified as Investments in separate investment trust funds. Statements of participants in the pool's internal portion report pooled investments as cash equivalents. Statements of participants in the external portion report pooled investments as "Assets held in investment trust – pool." Special district funds with individual investment accounts report their portion of net assets as "Assets held in investment trust – individual accounts." Investments are reported at fair value in compliance with the GASB Codification, Section 150.105, which provides for reporting investments of governmental entities using fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. (See Note 4, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements.")

**Receivables**

Amounts due from private individuals, organizations, or other governments are recorded at year-end. These amounts include charges for services rendered by the County or intergovernmental grants. All unbilled service receivables are recorded at year-end.

Receivables are reviewed at year-end to establish or update the provisions for estimated uncollectible receivables. These provisions are estimated based on an analysis of an aging of the year-end Accounts receivable balance and/or the historical rate of uncollectibility.

Taxes Receivable - Property taxes levied for the current year are recorded on the balance sheet as Taxes receivable and Deferred revenues at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues.

Abatements Receivable - In the Development and Environmental Services Fund, a Special Revenue Fund, the Abatements receivable account records the unpaid civil penalties and

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

abatement costs due the County from liens filed by the Code Enforcement Section on property within the County. Deferred revenue is recorded for the abatements receivable and revenue is recognized when payment is made because liens may not be paid until the property is sold, which can be several years.

Assessments Receivable - In the governmental funds, unpaid assessments are reported in three accounts: Current, Delinquent and Deferred. Current assessments are those due within one year, Delinquent assessments are past due, and Deferred assessments are due beyond one year. Revenues from the assessments are recognized as they become current; that is, both measurable and available to finance expenditures of the current period.

Short-term Interfund Receivables and Payables – Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "Interfund short-term loans receivable/payable," (i.e., the current portion of interfund loans), or "Advances to/from other funds," (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "Due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "Internal balances."

Advances to Other Funds – Noncurrent portions of long-term interfund loan receivables are reported as Advances. In governmental funds they are offset equally by a fund balance reserve account that indicates they do not constitute expendable available financial resources and are not available for appropriation.

**Inventories**

Inventories of supplies are held by the following funds or divisions. The method of valuing each ending inventory is also noted:

Those funds with inventories using the first-in, first-out valuation method, approximated by using latest invoice amounts, include: Solid Waste Operating, King County International Airport Operating, Construction and Facilities Management, and Public Health Funds. The Motor Pool Equipment Rental, Public Works Equipment Rental, and Wastewater Equipment Rental Funds use the moving average valuation method.

The Water Quality Operating and Public Transportation Operating Funds use the average cost valuation method. The Public Works Equipment Rental Fund uses the average historical costs divided by the number of units purchased at various historical costs valuation method.

The last physical count of these inventories was as of December 2002, except for the inventories of the Public Transportation and Water Quality Operating Funds, which use cycle counting.

The Public Health Fund inventory is accounted for under the consumption method. Under the consumption method, an inventory asset is recorded when the materials and supplies are purchased, and the expenditure is recognized as the inventories are used. Inventories are offset by a fund balance reserve account in the financial statements.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

**Prepayments**

Payments made to vendors for services that will benefit periods beyond December 31, 2002, (or June 30, 2002, for Harborview Medical Center), are recorded as prepaid items.

**Restricted assets and related liabilities**

Restricted assets include operating reserves for landfill post-closure costs and reserves required by bond covenants. Restricted assets also include resources to be used for construction, and debt service. The related liabilities are reported in the Liabilities payable from restricted assets section of the statement of net assets.

**Capital assets**

Capital assets include Land (which consists of fee simple land, right-of-way and easements, and farmland development rights); Infrastructure; Buildings; Improvements other than buildings; and Furniture, machinery and equipment; and are reported in the appropriate governmental or business-type column in the government-wide financial statements. Furniture, machinery and equipment includes items with a cost greater than or equal to \$1,000 for the King County primary government; \$2,500 for Harborview Medical Center; and \$500 for the Washington State Major League Baseball Stadium Public Facilities District. Infrastructure (road and bridges network) is now capitalized in accordance with GASB Statement 34. The roads and bridges network is reported using the modified approach to infrastructure reporting; hence depreciation is not recorded. However, under this approach the County is required to present maintenance information that can demonstrate that it is preserving the infrastructure up to an acceptable, preset level.

The County does not report Solid Waste Enterprise landfill closure and post-closure equipment and facilities costs as capital assets. Instead, the liability for landfill post-closure care is reduced to the extent of these costs.

Capital assets are valued at historical cost or estimated historical cost where actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Expenditures for maintenance and repairs that do not add to the value of the assets or materially extend their lives are expensed as incurred. Expenditures for repairs and upgrades that materially add to the value or life of an asset are capitalized.

Governmental capital assets are now depreciated in accordance with GASB Statement 34. As with business-type capital assets such as those in the enterprise and internal service funds, provision is made for the depreciation of capital assets over the estimated useful lives of the depreciable assets using the straight-line method.

Buildings, structures, and their components have been depreciated over their estimated useful lives as presented on the following page:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Buildings - constructed	Straight-line	40 to 60 years
Buildings, transfer stations, shops, scale offices, etc.	Straight-line	10 to 30 years
Infrastructure - Parks	Straight-line	20 to 30 years

Improvements other than buildings in the Enterprise and Internal Service Funds have been depreciated over their estimated useful lives of 10 to 50 years, using the straight-line method. In the Public Transportation Enterprise, the transit downtown tunnel is being depreciated over 50 years. Sewer lines in the Water Quality Enterprise are being depreciated over 50 years.

Furniture, machinery and equipment are given various lives of 3 to 20 years, depending upon their classification:

<u>DESCRIPTION</u>	<u>DEPRECIATION METHOD</u>	<u>ESTIMATED USEFUL LIFE</u>
Data processing equipment	Straight-line	3 to 10 years
Telecommunication equipment	Straight-line	6 to 10 years
Automobiles - cars, vans, etc.	Straight-line	5 years
Automobiles – trucks	Straight-line	6 to 8 years
Buses	Straight-line	12 years
Heavy equipment	Straight-line	7 to 15 years (depending on use)
Medical equipment	Straight-line	3 to 20 years
Shop equipment	Straight-line	5 to 10 years
Office equipment	Straight-line	3 to 10 years

**Deferred Charges**

The government-wide financial statements and proprietary fund types in the fund financial statements defer expenditures for debt issuance, which are amortized over the life of the respective bond issues. The Public Transportation Enterprise includes certain amounts due from employees as deferred charges. In accordance with FASB Statement No. 71, the Water Quality Enterprise defers environmental remediation costs, which are amortized over 40 years. (The Water Quality Enterprise is a regulated utility per FASB71 because rates, which are designed to recover the cost of providing services, are set by the County Council per RCW 35.58.200(4) and RCW 36.56.010.) Both the government-wide and proprietary fund types in the fund financial statements defer bond premiums, discounts and refunding losses, which are reported in the statement of net assets under Noncurrent liabilities and in the fund financial statements under Long-term liabilities.

**Deferred Revenues**

Deferred revenues include: (1) amounts collected before revenue recognition criteria are met, such as Deferred parks program revenue and building and land development permit fees; and (2) receivables that, under the modified accrual basis of accounting, are measurable but not

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

yet available, such as Delinquent property taxes receivable, Abatements receivable, and Special assessments receivable. This amount was \$15.4 million at year-end.

**Rebatable Arbitrage**

The County's tax-exempt debt is subject to arbitrage restriction as defined by the Internal Revenue Code. All of the county's bonded debts are tax-exempt except two taxable debts as identified in Note 12, "Debt" – Schedule of Long-term Debt. Arbitrage occurs when the funds borrowed at tax-exempt rates of interest are invested in higher yielding taxable securities. These interest earnings in excess of interest expense must be remitted to the federal government except when spending exceptions rules are met. The County no longer recognizes a liability for arbitrage at the fund level unless this liability is due and payable at the end of the year. At the government-wide level, however, the liability is recognized during the period the excess interest is earned.

**Compensated Absences**

Eligible King County employees earn 12 days of sick leave and 10 to 30 days of vacation per year, depending on the employee's length of service and other factors. An unlimited amount of sick leave and a maximum of 60 days of vacation may be accrued. An employee leaving the employ of King County is entitled to be paid for unused vacation leave and, if retiring as a result of length of service or terminating by reason of death, for 35 percent of the value of unused sick leave. For reporting purposes, a variety of factors are used to estimate the portion of the accumulated sick leave that is subject to accrual.

A liability is accrued for estimated excess compensation liabilities to the Washington State Department of Retirement Systems based on an employee's accrued vacation and sick leave. An excess compensation liability is incurred when any employee whose retirement benefits are based in part on excess compensation receives a termination or severance payment defined by the State as excess compensation. This includes, but is not limited to, a cashout of unused annual leave in excess of 240 hours and a cashout of any other form of leave.

All vacation pay liability and a portion of sick leave liability is accrued in the government-wide, proprietary, and fiduciary fund financial statements.

The proprietary funds follow the GASB's Codification, Section C60, and recognize a long-term liability for compensated absences in the accounting period in which it is earned.

**Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums, and discounts, as well as bond issuance cost, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represent tentative management plans that are subject to change.

**Changes in Accounting Policies/Principles**

Effective for Fiscal Year 2002 reporting, the County implemented several new accounting standards issued by GASB:

Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*,

Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, and

Statement No. 38, *Certain Financial Statement Note Disclosures*.

Fund Reclassification - Statement No. 34, as amended by Statement No. 37, establishes new financial reporting standards for state and local governments. The requirements of these statements represent a significant change in the financial reporting model used by the County, most significantly new government-wide financial statements. In addition to government-wide financial statements, they require changes to statement formats, changes in fund types, and the elimination of account groups. As a result, certain beginning fund balances were required to be restated for fund reclassifications.

**Component Units – Summary of Significant Accounting Policies**

**Harborview Medical Center (HMC)**

Harborview Medical Center maintains its own distinct set of accounting records. It is required to maintain its financial records on a fund accounting basis in conformity with restrictions or designations imposed by the State municipal corporation laws, King County ordinances, donors, and the Board of Trustees.

HMC's accounts are organized into general and restricted funds. General funds include the Operating Fund and Plant Fund; restricted funds include the Construction Fund and the Special Purpose Funds.

- Operating Fund - accounts for the operating assets and liabilities and those operating revenues and expenses that are not funded by restricted sources.
- Plant Fund - accounts for funds designated by the Board of Trustees for buildings, renovations, and equipment purchases.
- Construction Fund - consists of monies from the 1977 General Obligation Bonds, the 1988 General Obligation Bonds, the 1993 General Obligation Bonds, the 1998 Revenue Bonds, the 1999 General Obligation Bonds, and the 2000 General Obligation Bonds, which are restricted for capital construction purposes.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 1 – CONTINUED**

- Special Purpose Fund - accounts for restricted donations, gifts, and bequests received from outside sources for specific purposes.

The Component Unit – Harborview Medical Center Statement of Net Assets reflects HMC's financial position at June 30, 2002, as measured by assets, liabilities and equity of all funds (general and restricted). The Statement of Activities reports the results of operations for all funds, general and restricted.

HMC restricted assets includes the assets of HMC's Construction Fund, Special Purpose Fund, and all board-designated assets in the Operating and Plant Funds.

HMC's capital assets are stated at cost. Improvements and replacements of buildings and equipment are capitalized; maintenance and repairs are expensed. Depreciation is taken on buildings, improvements, and equipment using the straight-line method. Upon disposal, capital assets and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recorded.

HMC, as an instrumentality of the State of Washington, is not subject to federal income taxes under Section 115 of the Internal Revenue Code unless unrelated business income is generated during the year.

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The PFD uses the accrual basis of accounting. Expenses are recorded at the time liabilities are incurred and revenues are recorded when earned.

Cash and cash equivalents consists of cash and pooled investments managed by the King County Treasury Operations Section. The King County Treasury Operations Section Manager pools and invests all short-term cash surpluses not otherwise invested by individual funds of the County. Earnings from these pooled investments are allocated to the PFD based upon its share of equity in the pool.

Capital assets include the Baseball Stadium and Furniture, machinery and equipment. The Baseball Stadium includes all costs associated with the development and construction of the ballpark project. Development costs include District staffing and related operating costs, architect and engineering fees, environmental consulting fees, and all other costs related to the development of the ballpark project.

Capital assets are valued at historical cost. Only interest on interim financing during pre-construction and construction is capitalized.

Capital assets are depreciated on a straight-line basis based on their estimated useful lives. Furniture and equipment are depreciated over three or five years. The Baseball Stadium is depreciated over 40 years from the date it was placed in service.

District employees earn 12 days of sick leave and 10 to 15 days of vacation per year, depending on the employee's length of service. An unlimited amount of sick leave may be accrued and two times the annual vacation allotment may be accrued. An employee leaving the employ of the PFD is entitled to be paid for all unused vacation. Unused sick leave is forfeited upon termination of employment. The accrual for unused vacation is included in wages payable in the accompanying balance sheet.



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains, "Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,043,823,729 difference are as follows:

Bonds payable	\$ 894,749,245
Less: Deferred charge on refunding (to be amortized as interest expense)	(10,686,375)
Deferred charge for issuance costs (to be amortized over life of debt)	(1,868,658)
Plus: Unamortized premiums on bonds sold	10,244,328
Accrued interest payable	6,951,759
Capital leases payable	83,770,342
Compensated absences	57,348,312
Rebatable arbitrage	<u>3,314,776</u>
Net adjustment to reduce <i>fund balance – total governmental funds</i> to arrive at <i>net assets – governmental activities</i>	<u>\$ 1,043,823,729</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$77,926,810 difference are as follows:

Capital outlay	\$ 110,476,003
Depreciation expense	<u>(32,549,193)</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 77,926,810</u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 2 – CONTINUED**

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (e.g., sales, trade-ins, and donations) is to increase net assets." The details of this \$47,461,682 difference are as follows:

In the statement of activities, only the gain on the sale of capital assets is reported. In the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the book value of the capital assets sold.	\$ (14,257,959)
Book value of capital assets transferred to proprietary funds	(2,584,283)
Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>64,303,924</u>
Net adjustment to increase <i>net changes in fund balances — total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 47,461,682</u>

Another element of that reconciliation states, "Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds." The details of this \$1,202,670 difference are as follows:

Property tax accrual	\$ 451,377
Surface Water Management service charge accrual	125,909
Work Release service charge net accrual	603,638
Fines and Forfeits net accrual	<u>21,746</u>
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,202,670</u>

Another element of that reconciliation states, "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$25,725,492 difference are as follows:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 2 – CONTINUED**

Debt issued or incurred	
Issuance of general obligation bonds	\$ (38,340,000)
Issuance of refunding general obligation bonds	(124,575,000)
Capital lease financing	(145,336)
Premium on bonds issued	(10,877,409)
Bond issuance costs	966,945
Principal repayments	57,900,420
Payment to escrow agent for refunding	132,797,821
Payment to escrow agent for partial defeasance	<u>7,998,051</u>
Net adjustment to increase <i>net changes in fund</i> <i>balances – total governmental funds to arrive at</i> <i>changes in net assets of governmental activities</i>	<u>\$ 25,725,492</u>

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of this \$5,897,887 difference are as follows:

Compensated absences	\$ (5,328,070)
Accrued rebatable arbitrage	(504,410)
Accrued Interest	104,295
Amortization of issuance costs	(56,338)
Amortization of deferred charge on refunding	(746,445)
Amortization of bond premiums	<u>633,081</u>
Net adjustment to decrease <i>net changes in fund</i> <i>balances – total governmental funds to arrive at</i> <i>changes in net assets of governmental activities</i>	<u>\$ (5,897,887)</u>

Another element of that reconciliation states, "Net revenues and expenses of certain activities of internal service funds are reported with governmental activities." The details of this \$7,985,753 difference are as follows:

Investment interest earnings	\$ 4,860,625
Revenues related to services provided to outside parties	1,988,102
Expenses related to services provided to outside parties	(1,976,540)
Loss on disposal of capital assets	(43,568)
Interest on long-term debt	(264,310)
Transfers in	1,724,984
Transfers out	(2,681,902)
Internal Service Fund Profits allocated to governmental activities	<u>4,378,362</u>
Net adjustment to increase <i>net changes in fund</i> <i>balances – total governmental funds to arrive at</i> <i>changes in net assets of governmental activities</i>	<u>\$ 7,985,753</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Bases of Budgeting**

With the exception of the reconciling items described in the Reconciliation of Budgetary Basis and Generally Accepted Accounting Principles (GAAP) Basis Statements and Schedules section of this note, King County uses the modified accrual basis of budgeting for the General Fund, and most Debt Service and Special Revenue Funds. Revenues are estimated on the basis of when they become susceptible to accrual, such as intergovernmental revenues where revenue estimates are matched with appropriations. Budgeted appropriations include both Expenditures and Other financing uses; they are budgeted based on liabilities expected to be incurred in the acquisition of goods and services. These are annual budgets, i.e., they are applicable to the current fiscal year.

Twenty-four Special Revenue Funds have an annual budget with budgeting concepts identical to the General Fund. Twenty-three of these funds are presented in the budget and actual schedules of this report. One of these funds, the Arts and Cultural Education Fund, was inactive in 2002.

Two funds within the Special Revenue Fund type do not have an annual basis of budgeting. They are the Community Development Block Grant Fund and the Miscellaneous Grants Fund. Budgets within these funds are on a multi-year basis with the budget for a particular program covering one or more fiscal years. Total revenues and expenditures for the program are budgeted at its inception and any unexpended balance at the end of the fiscal year is reappropriated to the next fiscal year.

The Flood Control Zone Districts Funds are not budgeted. These funds account for four flood control zone districts' activities in accordance with chapter 86.15 RCW.

The Lake Management District Fund is not budgeted. This fund accounts for Lake Management District special assessment activity in accordance with chapter 36.61 RCW.

The Road Improvement Districts Maintenance Fund is not budgeted. This fund reports the road district maintenance assessment activity in accordance with chapter 36.88 RCW.

The Treasurer's Operations and Maintenance Fund, pursuant to RCW 84.56.020, is not budgeted.

Three Debt Service Funds have an annual budget with budgeting concepts identical to the General Fund. These funds are presented in the budget and actual statements of this report. In the Limited General Obligation Bond Redemption Fund, revenues and expenditures related to proprietary type debt service payments are budgeted.

Two Debt Service Funds, the Road Improvement Districts Special Assessment Debt Redemption Fund and Road Improvement Guaranty Fund, are not budgeted. These funds report road improvement districts' special assessments revenues and debt service expenditures in accordance with chapter 36.88 RCW.

All funds in the Capital Projects Fund type, except the Road Improvement Districts Construction Fund, are controlled by multi-year budgets. However, capital budget appropriations are canceled at the end of the year, unless the County Executive submits to the County Council

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 3 – CONTINUED**

the report of the final year-end reconciliation of expenditures for all capital projects on or before March 1 of the year following the year of the appropriation, and each year thereafter in which the appropriation remains open.

The Road Improvement Districts Construction Fund is not budgeted. This fund reports capital improvement assessments construction activity in accordance with chapter 36.88 RCW.

The Enterprise and Internal Service Funds (with the exception of the Insurance Fund) are budgeted on the modified accrual basis rather than the accrual basis (the GAAP basis for proprietary funds). Appropriations are based on an estimate of expenditures expected to be incurred in the acquisition of goods and services during the fiscal year. Estimated revenues are based on the amount estimated to be earned and available during the fiscal year.

The Insurance Fund is budgeted on the modified accrual basis with one exception. Consistent with the intent of the County ordinance that delegates full claims settlement authority to the County Executive, the recognition of the portion of judgment and claim settlements that occurs and remains unpaid at the end of a fiscal year, and exceeds current year expenditure appropriations, is deferred to the following year when the claim is paid. In 2002 no judgment and claim settlement recognition was deferred to a future period on the budgetary basis schedules due to insufficient appropriations in the current year.

The Trust and Agency Funds are not budgeted.

**Encumbrances**

Encumbrances outstanding as of December 31, 2002, are shown in the following schedule by fund type:

**YEAR-END ENCUMBRANCES OUTSTANDING AS OF DECEMBER 31, 2002**

General Fund	\$ 4,867,134
Public Health Fund	930,270
Special Revenue Funds	12,830,105
Capital Projects Funds	98,532,586
Enterprise Funds	3,738,658
Internal Service Funds	<u>5,244,970</u>
Total All Funds	<u>\$ 126,143,723</u>

**Reconciliation of Budgetary Basis and GAAP Basis Statements and Schedules for Governmental Funds**

In the General and budgeted Special Revenue and Debt Service Funds, the legally prescribed budgetary basis differs from the GAAP basis in 2002. For those statements and schedules in which budget comparisons are presented, the legally adopted budget is compared with

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 3 – CONTINUED**

actual data on the budgetary basis rather than the GAAP basis. Governmental funds budget to actual statements and schedules include an explanation of the differences between the two bases. All statements that do not have budget comparisons are prepared on the GAAP basis.

**Budgeted Level of Expenditures**

Appropriations are authorized by ordinance, generally at the fund level, with the exceptions of the General Fund and five Special Revenue Funds (the Community Development Block Grant, County Road, Criminal Justice, Developmental Disabilities, and Miscellaneous Grants Funds), which are appropriated at the department/division level, and Capital Projects Funds, which are appropriated at the project level.

These are the legal levels of budgetary control. Unless otherwise provided by the appropriation ordinances, all unexpended and unencumbered annual appropriations lapse at the end of the year. The schedules of revenues, expenditures, and changes in fund balances/retained earnings-budget (non-GAAP budgetary basis) and actual include variances at the function of expenditure level. These variances are presented for informational purposes only and, if negative, do not constitute a legal violation. Administrative control is guided by the establishment of more detailed line item budgets.

**Expenditures including Other Financing Uses, in Excess of Amounts Legally Authorized**

Funds with Multi-year Budgets

Eighty-six capital projects with multi-year budgets in twenty-six CIP and enterprise funds have expenditures in excess of budget at year-end. Prior year capital project transfers of \$22.8 million to a debt service fund and \$16.0 million to a component unit require additional appropriation through a corrections ordinance. The other eighty-four projects have expenditures of \$3.7 million in excess of budget. These projects will also be corrected by additional appropriations in 2003.

Funds with Annual Budgets

All funds and departments/divisions with annual budgets completed the year within their legally authorized expenditures, including other financing uses.

**Fund Balance and Net Asset Deficits**

Building Construction and Improvement – The deficit of \$29,966,467 is the result of using short-term bond anticipation notes to finance long-term capital projects. This short-term borrowing is scheduled to be replaced by general obligation bonds in 2003. The proceeds of the future bond issue will be recorded as other financing source in the capital projects fund, thereby eliminating the fund balance deficit.

County Road Fund – The deficit fund balance of \$1,274,773 is the result of collected revenues not meeting projected levels, offset by under expenditures in 2002. The County Road Fund deficit was reduced in 2002 by \$3.2 million from \$4,456,471. The most significant revenue source

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 3 – CONTINUED**

undercollected was due to property sales that did not occur in 2002 that are expected to be collected in 2003. A positive ending fund balance of \$1.2 million is projected for 2003.

Employee Benefits Program Fund – The deficit of \$43,283 is the result of prior net losses of \$4,219,630 and \$4,065,372 during 2000 and 2001, respectively. The deficit is being addressed in subsequent years through rate setting.

Long-term Leases Fund – The deficit of \$201,399 is the result of unreimbursed expenditures for various tenant improvements and earthquake repairs. The County plans to recover the costs of tenant improvements over several years through increased monthly billings to benefiting agencies. Reimbursement from the Federal Emergency Management Agency (FEMA) is expected to cover some portion of the earthquake repair costs.

Road Improvement Districts Construction Fund – The deficit of \$23,109 is the result of using short-term debt to finance the various projects of the road improvement districts. As capital projects are completed, short-term debt is replaced by long-term bonds. Bond proceeds are recorded as other financing source, thereby eliminating the deficit.

Safety and Workers' Compensation Fund – The deficit of \$7,891,666 is the result of losses in several years in the last ten years. The rates charged by the fund for workers' compensation are sufficient to meet current cash flow requirements but only fund a portion of its long-term liabilities.

Transfer of Development Credit Program Fund – The deficit of \$1,489,849 is the result of using short-term borrowing to finance expenditures in anticipation of planned contributions from the Conservation Futures Levy fund.

**Public Transportation Enterprise Bond Covenants**

During 2002 the Public Transportation Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2001 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2003 the Enterprise again has complied with all covenants, except for providing 2002 audited statements within 120 days of year-end. The 2002 financial statements will be completed within the six-month extension period.

**Water Quality Enterprise Bond Covenants**

During 2002 the Water Quality Enterprise complied with all covenants stipulated by its bond resolutions, except for providing audited 2001 financial statements within 120 days of year-end. The Enterprise had six months beyond the 120 days to rectify the situation. The statements and report were provided within the six-month period. In 2003 the Enterprise again has complied with all covenants, except for providing 2002 audited statements within 120 days of year-end. The 2002 financial statements will be completed finalized within the six-month extension period.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS, INVESTMENTS, AND REVERSE REPURCHASE AGREEMENTS**

**Deposits**

The County maintains deposit relationships with several local commercial banks and thrift institutions in addition to its concentration bank.

All deposits not covered by the Federal Depositary Insurance Corporation (FDIC) are covered by the Public Deposit Protection Commission of the State of Washington (PDPC). The PDPC is a statutory authority established under chapter 39.58 RCW. It constitutes a multiple financial institution collateral pool that can make *pro rata* assessments to all public depositaries within the state of up to 10 percent of all their public deposits. There is no current provision for PDPC to make additional *pro rata* assessments if needed to cover a loss. Therefore, in accordance with GASB, *Codification of Governmental Accounting and Financial Reporting Standards*, Section 150.110, PDPC protection is of the nature of collateral, not of insurance. As of December 31, 2002, the carrying amount of deposits for the Primary Government was \$387,415,696 and the bank balance was \$368,157,872.

	CARRYING AMOUNT	BANK BALANCE	CATEGORY 1	CATEGORY 2	CATEGORY 3
Demand deposits	\$ 44,985,557	\$ 25,727,733	\$ 25,671,362	\$ -	\$ 56,371
Certificates of deposit	342,430,139	342,430,139	250,004,291	-	92,425,848
Total deposits	<u>\$ 387,415,696</u>	<u>\$ 368,157,872</u>	<u>\$ 275,675,653</u>	<u>\$ -0-</u>	<u>\$ 92,482,219</u>

Category 1 includes: (1) deposits insured by the FDIC (insured up to \$100,000 per bank); and (2) a proportionate share of deposits uninsured but collateralized under the PDPC multiple financial institution collateral pool. Pledged securities under the PDPC collateral pool are held by the County's agent in the name of the County. Some large depositaries held public deposits in amounts in excess of the market value of the entire PDPC collateral pool. To the extent that uninsured public deposits of a financial institution exceed the PDPC's total pool value, equivalent proportions of the County's deposits in those institutions are classified as Category 3. Determination of these amounts is based on the conservative assumption that none of the excess public deposits were covered by FDIC insurance. Although such risk is recognized, the PDPC provides additional protection by maintaining strict standards as to the amount of public deposits financial institutions can accept, and by monitoring the financial condition of all public depositaries and optimizing collateralization requirements. There are no uninsured deposits which are collateralized by securities held by the County's agent but not in the County's name (Category 2).

**Investments**

Statutes authorize King County to invest in obligations of the United States Treasury and instrumentalities; banker's acceptances issued in the secondary market; commercial paper; primary certificates of deposit issued by Washington State qualified public depositaries as defined under chapter 39.58 RCW; and the State Treasurer's Investment Pool. The County is also authorized to enter into repurchase and reverse repurchase agreements.

County investment policies require that securities underlying repurchase agreements must have a market value of at least 102 percent of the cost of the repurchase agreement for investment terms of less than 30 days, and 105 percent for terms longer than 30 days. Repurchase agreements in excess of 60 days, and reverse repurchase agreements exceeding 180 days, are



**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 4 – CONTINUED**

not allowed. Currently, the County's tri-party custodial bank monitors compliance with these provisions. The County does not enter into yield maintenance repurchase agreements. The County operates under the GASB's *Codification*, Section 2300.601, definition of derivatives and similar transactions. During the year, the County did not buy, sell, or hold any derivative or similar instrument except for certain US agency mortgage-backed securities purchased by the King County Investment Pool to enhance investment yield. Although these securities are sensitive to early prepayments by mortgagees, usually resulting from a decline in interest rates, county policies are in place to ensure that only the lowest risk securities of this type are acquired.

The County's investments are categorized to give an indication of the level of credit risk assumed at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the County or its agent in the County's name.

	CATEGORY 1	CATEGORY 2 & 3	CARRYING AMOUNT (FAIR VALUE)
Repurchase agreements	\$ 81,982,634	\$ -	\$ 81,982,634
Commercial paper	772,232,305	-	772,232,305
Municipal bonds	81,988,276	-	81,988,276
Mortgage-backed securities	190,651,602	-	190,651,602
U. S. government securities:			
Treasury notes	50,451,726	-	50,451,726
U. S. agency issues	1,701,426,905	-	1,701,426,905
Totals	<u>\$ 2,878,733,448</u>	<u>\$ -0-</u>	<u>2,878,733,448</u>
Investments under reverse repurchase agreements			48,441,667
State Treasurer's Investment Pool			596,991
Total Investments (Primary Government)			<u>\$ 2,927,772,106</u>

The above schedule shows the types of investments made during the year and the investment values at the end of the year for the Primary Government. These exclude the equity in the component units, i.e., Harborview Medical Center and the Washington State Major League Baseball Stadium Public Facilities District. All investments are reported at fair value. Fair value pricing is provided by the County's safekeeping bank or an independent pricing source.

There were no losses incurred during the period as a result of default by counterparties to deposit or investment transactions. During the period, there were no known violations of legal or contractual provisions for deposits and investments.

Reverse Repurchase Agreements

Statutes permit King County to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. County policy prohibits the use of these agreements as a borrowing mechanism. The proceeds from these agreements are reinvested in other instruments with the same maturities as the collateral securities, resulting in a matched position.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 4 – CONTINUED**

The assets and liabilities related to the Investment Pool-owned reverse repurchase agreements were allocated to the individual pool participants based on their equity in the pool as of December 31, 2002. The liability is reported as obligations under reverse repurchase agreements and the assets are reflected as an increase in cash equivalents in the balance sheets of funds that participate in the internal portion of the Investment Pool and in the Investment Trust Funds "Combining Statement of Net Assets" for funds that participate in the external portion of the Investment Pool.

Reverse repurchase agreements are subject to credit risk. Should the dealers default on their obligation to resell these securities to the County, the County would be faced with an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. The credit exposure at year-end was \$510,000 on reverse repurchase agreements in the Investment Pool.

External Investment Pool

For investment purposes, the County pools the cash balances of county funds and component units and also allows for participation by other legally separate entities such as special districts, for which the County is ex officio treasurer, and public authorities. The King County Investment Pool (the Pool) is an external investment pool. The external portion of the Pool (portion that belongs to special districts and public authorities other than component units) is reported in an Investment Trust Fund. It is county policy to invest all county funds in the Pool. All non-County participation in the Pool is voluntary.

The Pool is not registered with the SEC as an investment company. Oversight is provided by the King County Executive Finance Committee (EFC) pursuant to RCW 36.29.020. The EFC consists of the Chair of the County Council, the County Executive, the Chief Budget Officer, and Director of the Finance and Business Operations Division. All investments are subject to written policies and procedures adopted by the EFC. The EFC reviews pool performance monthly.

During the 2002 fiscal year the balance in the County's Investment Pool increased by \$844 million (25 percent). There were three main reasons for this increase: (1) sixteen districts joined the Pool during the year; (2) the County's Wastewater Treatment Division bond funds also joined the Pool, adding \$200 million to the Pool balance as they were no longer subject to restrictive bond covenants; and (3) several large bonds were issued by Pool participants.

Summary information for all pool investments is presented below:

<u>INVESTMENT</u>	<u>FAIR VALUE</u>	<u>PRINCIPAL</u>	<u>AVERAGE INTEREST RATE</u>	<u>AVERAGE YEARS TO MATURITY</u>
Certificates of deposit	\$ 307,280,733	\$ 307,280,733	1.98%	0.45
Repurchase agreements	67,000,000	67,000,000	1.22	0.00
Commercial paper	806,913,333	808,291,000	1.77	0.13
Municipal bonds	85,670,378	83,405,000	5.83	0.75
U.S. government securities:				
Treasury securities	101,037,188	100,000,000	2.30	1.38
Agency securities	1,637,376,716	1,596,595,000	4.08	2.39
Agency mortgage-backed securities	309,702,155	300,927,771	5.95	1.14
State Treasurer's Investment Pool	623,802	623,802	1.45	0.00
Totals	<u>\$ 3,315,604,305</u>	<u>\$ 3,264,123,306</u>	<u>3.41%</u>	<u>1.41</u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 4 – CONTINUED**

The Pool values participants' shares using an amortized cost basis. Monthly income is distributed to participants based on their relative participation during the period. Income is calculated based on: (1) realized investment gains and losses calculated on an amortized cost basis; (2) interest income based on stated rates (both paid and accrued); and (3) the amortization of discounts and premiums on a straight-line basis. Income is reduced by the contractually agreed upon investment fee. This method differs from the fair value method used to value investments in this statement because the amortized cost method is not designed to distribute to participants all unrealized gains and losses in the fair values. The total difference between fair values of the investments in the Pool and the values distributed to the Pool participants using the amortized cost method described above is reported in the equity section of the statement of net assets as undistributed and unrealized gains.

All securities are reported at fair value. Fair value reports are prepared monthly and are distributed to all Pool participants. Fair value pricing is provided by the County's security safekeeping bank. If a security is not priced by the County's safekeeping bank, prices are obtained from Bloomberg L.P., a provider of fixed income analytics, market monitors, and security pricing. The County has not provided or obtained any legally binding guarantees to support the value of the Investment Pool's shares.

Custodial Risk

The Pool's deposits and investments are classified in various categories of custodial risk based on the same criteria for all deposits and investments of the County.

Deposits consist of \$307,280,733 in certificates of deposit (CDs) and a municipal investor account (MIA), of which \$246,570,453 is category 1 and \$60,710,280 is category 3.

Investments other than CDs are categorized into risk categories as follows:

	CATEGORY 1	CATEGORY 2 & 3	CARRYING AMOUNT (FAIR VALUE)
Repurchase agreements	\$ 67,000,000	\$ -	\$ 67,000,000
Commercial paper	806,913,333	-	806,913,333
Municipal bonds	85,670,378	-	85,670,378
U. S. government securities:			
Treasury notes	50,425,495	-	50,425,495
Mortgage-backed securities	309,702,155	-	309,702,155
U. S. agency issues	1,637,898,617	-	1,637,898,617
Totals	<u>\$ 2,957,609,978</u>	<u>\$ -0-</u>	<u>2,957,609,978</u>
Investments under reverse repurchase agreements			50,617,188
State Treasurer's Investment Pool			623,802
Total Investments (Total Pool)			<u>\$ 3,008,850,968</u>

The County's voluntary investment in the Washington State Treasurer's Local Government Investment Pool (LGIP) is not categorized because it is not evidenced by securities in physical or book entry form. The amount is carried at cost which approximates fair value. The LGIP is a 2a7-like pool that is overseen by the Office of the State Treasurer, the State Finance Committee, the

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 4 – CONTINUED**

Local Government Investment Pool Advisory Committee, and the Washington State Auditor's Office. The LGIP also contracts for an annual outside independent audit.

As previously indicated, the Pool owns reverse repurchase agreements at December 31, 2002. The investments under reverse repurchase agreements in the above schedule represent the collateral securities transferred to the lender in exchange for the cash received and used to purchase other securities. These securities are also not categorized because they are held by the lender as collateral.

The following is a condensed statement of net assets and changes in net assets for the entire King County Investment Pool as of December 31, 2002:

Condensed Statement of Net Assets	
Assets	\$ 3,330,898,378
Less: Liabilities	(61,025,279)
Net assets held in trust for pool participants	<u>\$ 3,269,873,099</u>
Equity of internal pool participants	\$ 1,502,386,897
Equity of external pool participants	1,767,486,202
Total equity	<u>\$ 3,269,873,099</u>
Condensed Statement of Changes in Net Assets	
Net assets at January 1, 2002	\$ 2,426,417,008
Net change in investments by pool participants	843,456,091
Net assets at December 31, 2002	<u>\$ 3,269,873,099</u>

**Individual Investment Accounts**

King County also purchases individual investments for other legally separate entities, such as special districts and public authorities that are not part of the financial reporting entity. Net assets in these individual investment accounts are reported in a separate Investment Trust Fund in the Fiduciary Funds section. As of December 31, 2002, net assets in the individual investment accounts decreased dramatically due to the departure of Port of Seattle when it became its own treasurer on July 31, 2002.

**Component Units**

**Harborview Medical Center (HMC)**

Harborview Medical Center (HMC) participates in the County's investment pool. HMC's equity in the pool (reported as cash equivalents at June 30, 2002) amounted to \$138,494,003. In addition, HMC maintains demand deposit accounts in various banks. Demand deposits (insured up to \$100,000 per bank) total \$1,822,706 with a carrying amount of \$1,730,075. HMC also has access to \$4,655,830 in a University of Washington account for capital projects. Deposits and investments for the HMC component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County Investment Pool deposits and investments.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

**NOTE 4 – CONTINUED**

Harborview Medical Center (HMC)

	CARRYING AMOUNT	BANK BALANCE	CATEGORY 1	CATEGORY 2	CATEGORY 3
Equity in Investment Pool	\$ 138,494,003	\$ 138,494,003	\$ 136,178,383	\$ -	\$ 2,315,620
Cash in other banks	1,730,075	1,822,706	1,754,463	-	68,243
Totals	<u>\$ 140,224,078</u>	<u>\$ 140,316,709</u>	<u>\$ 137,932,846</u>	<u>\$ -0-</u>	<u>\$ 2,383,863</u>

Washington State Major League Baseball Stadium Public Facilities District (PFD)

The Washington State Major League Baseball Stadium Public Facilities District (PFD) participates in the County's investment pool. The PFD's equity in the pool (reported as cash equivalents at December 31, 2002) amounted to \$17,200,294. Deposits and investments for the PFD component unit are categorized according to levels of custodial risk using the same criteria as the categorization for the King County investment pool. In addition, PFD maintains demand deposit accounts in various banks. Demand deposits (insured up to \$100,000 per bank) total \$784,753 with a carrying amount of \$784,753.

	CARRYING AMOUNT	BANK BALANCE	CATEGORY 1	CATEGORY 2	CATEGORY 3
Equity in Investment Pool	\$ 17,200,294	\$ 17,200,294	\$ 16,885,529	\$ -	\$ 314,765
Cash in other banks	784,753	784,753	784,753	-	-
Totals	<u>\$ 17,985,047</u>	<u>\$ 17,985,047</u>	<u>\$ 17,670,282</u>	<u>\$ -0-</u>	<u>\$ 314,765</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 5 – PROPERTY TAXATION**

**Taxing Powers**

The County is authorized to levy both “regular” property taxes and “excess” property taxes. Regular property taxes are subject to limitations as to rates and amounts and are imposed for general municipal purposes, including the payment of debt service on limited tax general obligation bonds. The County also may impose “excess” property taxes that are not subject to limitation when authorized by a 60 percent majority popular vote, as provided in Article VII, Section 2, of the State Constitution and RCW 84.52.052. To be valid, such popular vote must have a minimum voter turnout of 40 percent of the number who voted at the last County general election, except that one-year excess tax levies also are valid if the turnout is not less than 24 percent of the number who voted at the last County general election. Excess levies may be imposed without a popular vote when necessary to prevent the impairment of the obligation of contracts.

Regular property tax levies are subject to rate limitations and amount limitations, as described below, and to the uniformity requirement of Article VII, Section 1 of the State Constitution, which specifies that a taxing district must levy the same rate on similarly classified property throughout the district. Aggregate property taxes vary within the County because of its different overlapping taxing districts.

*Maximum Rate Limitations.* The County may levy regular property taxes for two purposes: for general municipal purposes and for road district purposes. Each purpose is subject to a rate limitation. The general municipal purposes levy is limited to \$1.80 per \$1,000 of assessed value; the County levied \$1.14403 per \$1,000 in 2002. The road district purposes levy, which is levied in unincorporated areas of the County for road construction and maintenance and other County services provided in the unincorporated areas, is limited to \$2.25 per \$1,000; the County levied \$1.72810 per \$1,000 in 2002. Both the general purposes levy and the road district purposes levy are below the maximum allowable rate because of an additional limitation on the increase from one year to the next in the amount of taxes levied.

The County is authorized to increase its general purposes levy to a maximum of \$2.475 per \$1,000 of assessed value if the total combined levies for both general and road purposes do not exceed \$4.05 per \$1,000 and if no other taxing district has its levy reduced as a result of the increased County levy (RCW 84.52.043).

The \$1.80 per \$1,000 limitation on the general purposes levy is exclusive of the following regular property taxes: (1) a voted levy for emergency medical services, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.069); (2) a voted levy to finance affordable housing for very low income households, limited to \$0.50 per \$1,000 (authorized by RCW 84.52.105); and (3) a non-voted levy for conservation futures, limited to \$0.0625 per \$1,000 (authorized by RCW 84.34.230).

In November 2001 voters approved a six-year emergency medical services property tax at a maximum rate of \$0.25 per \$1,000 beginning in the 2002 tax year. The County currently is levying \$0.06246 per \$1,000 for conservation futures. In 2000 voters in the County approved a levy of \$0.05784 per \$1,000, which is in excess of the regular property tax increase limitation, to finance an automated fingerprint identification system. This five-year levy began in 2001; the current levy rate is \$0.05348 per \$1,000.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 5 – CONTINUED**

*One Percent Aggregate Regular Property Tax Levy Limitation.* Aggregate regular property tax levies by the State and all taxing districts except port districts and public utility districts are subject to a rate limitation of one percent of the true and fair value of property (or \$10.00 per \$1,000) by Article VII, Section 2 of the State Constitution and by RCW 84.52.050.

*\$5.90/\$1,000 Aggregate Regular Property Tax Levy Limitation.* Within the one percent limitation described above, aggregate regular property tax levies by all taxing districts except the State, port districts and public utility districts are subject to a rate limitation of \$5.90 per \$1,000 of assessed value (or 0.59%) by RCW 84.52.043(2). This limitation is exclusive of levies for emergency medical services, affordable housing for very low income households and acquiring conservation futures.

If aggregate regular property tax levies exceed the one percent or \$5.90 per \$1,000 limitations, levies requested by "junior" taxing districts within the area affected are reduced or eliminated according to a detailed prioritized list (RCW 84.52.010), in order to bring the aggregate levy into compliance. Junior taxing districts are defined by RCW 84.52.043 as all taxing districts other than the State, counties, cities, towns, road districts, port districts, and public utility districts.

*Regular Property Tax Increase Limitation.* The regular property tax increase limitation (chapter 84.55 RCW), as amended by Ch. 1, Laws of 2002 (the "Property Tax Act"), limits the total dollar amounts of regular property taxes levied by an individual taxing district to the amount of such taxes levied in the highest of the three most recent years multiplied by a limit factor, plus an adjustment to account for taxes on new construction at the previous year's rate. The limit factor is defined as the lesser of 101 percent or 100 percent plus inflation, but if the inflation rate is less than one percent, the limit factor can be increased to 101 percent, if approved by a majority plus one vote of the governing body of the municipality, upon a finding of substantial need. In addition, the limit factor may be increased, regardless of inflation, if such increase is authorized by the governing body of the municipality upon a finding of substantial need and is also approved by the voters at a general or special election within the municipality. Such election must be held less than 12 months before the date on which the proposed levy will be made, and any tax increase cannot be greater than described under "Maximum Rate Limitations." The approval of a majority of the voters would be required for the limit factor to be increased. The new limit factor will be effective for taxes collected in the following year only.

RCW 84.55.092 allows the property tax levy to be set at the amount that would be allowed if the tax levy for taxes due in each year since 1986 had been set at the full amount allowed under chapter 84.55 RCW. This is sometimes referred to as "banked" levy capacity.

With a majority vote of its electors, a taxing district may levy for the following year, within the statutory rate limitations described above, more than what otherwise would be allowed by the tax increase limitations, as allowed by RCW 84.55.050. This is known as a "levy lid lift," which has the effect of increasing the jurisdiction's levy "base" when calculating permitted levy increase in subsequent years. The new base can apply for a limited or unlimited period, except that if the levy lid lift was approved for the purpose of paying debt service on bonds, the new base can apply for no more than nine years. After the expiration of any limited purpose or limited

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 5 – CONTINUED**

duration specified in the levy lid lift, the levy is calculated as if the taxing district had levied only up to the limit factor in the interim period.

Since the regular property tax increase limitation applies to the total dollar amount levied rather than to levy rates, increases in the assessed value of all property in the taxing district (excluding new construction) which exceed the growth in taxes allowed by the limit factor result in decreased regular tax levy rates, unless voters authorize a higher levy.

**Property Tax Calendar**

January 1	Taxes are levied and become an enforceable lien against properties.
February 14	Tax bills are mailed.
April 30	First of two equal installment payments is due.
May 31	Assessed value of property established for next year's levy at 100 percent of market value.
October 31	Second installment is due.

**Tax Collection Procedures**

Property taxes are levied in specific amounts by the County Council and the rate for all taxes levied for all taxing districts in the County is determined, calculated and fixed by the County Assessor (the "Assessor") based upon the assessed valuation of the property within the various taxing districts. The Assessor extends the tax levied within each taxing district upon a tax roll that contains the total amounts of taxes levied and to be collected and assigns a tax account number to each tax lot. The tax roll is delivered to the Treasury Operations Section Manager who is responsible for the billing and collection of taxes due for each account. All taxes are due and payable on April 30 of each tax year, but if the amount due from a taxpayer exceeds fifty dollars, one-half may be paid then and the balance no later than October 31 of that year (except that one-half of real property taxes may be paid at any time prior to October 31 if accompanied by penalties and interest accrued until the date of payment).

The methods for giving notice of payment of taxes due, collecting such taxes, accounting for the taxes collected, dividing the collected taxes among the various taxing districts, and giving notice of delinquency are covered by detailed State statutes. The County's lien on personal property taxes levied by the County Council before the filing of federal tax liens is senior to such federal tax liens. In all other respects, and subject to the possible "Homestead Exemption" described below, the lien for property taxes is senior to all other liens or encumbrances of any kind on real or personal property subject to taxation. By law, the County may commence foreclosure on a tax lien on real property after three years have passed since the first delinquency. The State's courts have not decided if the homestead law (chapter 6.13 RCW) gives the occupying homeowner a right to retain the first \$40,000 of proceeds of the forced sale of a family residency or other "homestead" property for delinquent general property taxes. The United States Bankruptcy Court for the Western District of Washington has held that



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 5 – CONTINUED**

the Homestead Exemption applies to the lien for property taxes, while the State Attorney General has taken the position that it does not.

**Assessed Valuation Determination**

The Assessor determines the value of all real and personal property throughout the County that is subject to *ad valorem* taxation, with the exception of certain public service properties for which values are determined by the State Department of Revenue. The Assessor is an elected official whose duties and methods of determining value are prescribed and controlled by statute and by detailed regulations promulgated by the State Department of Revenue.

For tax purposes, the assessed value of property is 100 percent of its true and fair value. Since 1996, all property in the County has been subject to on-site appraisal and revaluation every six years, and is revalued each year based on annual market adjustments. Personal property is valued each year based on affidavits filed by the property owner. The property is listed by the Assessor on a roll at its current assessed value and the roll is filed in the Assessor's office. The Assessor's determinations are subject to revision by the County Board of Appeals and Equalization and, if appealed, subject to further revision by the State Board of Tax Appeals. At the end of the assessment year the County Council receives the Assessor's final certificate of assessed value of property within the County. The taxes payable in the following year are based on this assessed valuation.

**Accounting for Property Taxes Receivable**

In the governmental funds, property taxes levied for the current year are recorded on the balance sheet as taxes receivable and deferred revenue at the beginning of the year. Property taxes are recognized as revenue when collected in cash at which time the balance sheet accounts, Taxes receivable and Deferred revenues, are reduced by the amount of the collection. The amount of taxes receivable at year-end that would be collected soon enough to be used to pay liabilities of the current period is not material. At year-end, all uncollected property taxes are reported on the balance sheet as Taxes receivable-delinquent and Deferred revenues. For the government-wide financial statements, the deferred revenue related to the current period, net of the allowance for uncollectible property taxes, is reclassified to revenue.

**Allocation of Tax Levies**

The following table compares the allocation of the 2002 and 2001 countywide, Emergency Medical Services (EMS), and unincorporated County tax levies by fund, showing for each year the original tax levy and levy rate. The original tax levy reflects the levy before any supplemental levies, tax cancellations, or other adjustments. The 2002 countywide assessed valuation was \$210,996,600,903, an increase of \$22.6 billion from 2001; the assessed valuation for the unincorporated area levy was \$32,030,919,942, an increase of \$2.3 billion from 2001.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 5 – CONTINUED**

## ALLOCATION OF 2002 AND 2001 TAX LEVIES

	2002 Original Taxes Levied (in thousands)	2002 Levy Rate (per thousand)	2001 Original Taxes Levied (in thousands)	2001 Levy Rate (per thousand)
Countywide Levy Assessed Valuation: \$210,996,600,903 <sup>(1)</sup>				
Items Within Operating Levy <sup>(2)</sup>				
General Fund	\$ 217,903	\$ 1.03765	\$ 201,660	\$ 1.07656
River Improvements	2,363	0.01125	2,278	0.01216
Veterans' Relief	1,999	0.00952	1,927	0.01029
Human Services	4,442	0.02115	4,282	0.02286
Intercounty River Improvement	50	0.00024	50	0.00027
Limited G.O. Bonds Debt Service	13,494	0.06422	19,181	0.10239
Automated Fingerprint Identification System <sup>(3)</sup>	11,231	0.05348	10,834	0.05784
Total Operating Levy	<u>251,482</u>	<u>1.19751</u>	<u>240,212</u>	<u>1.28237</u>
Conservation Futures Levy <sup>(4)</sup>				
Conservation Futures Levy	7,354	0.03503	6,565	0.03506
Farmland and Park Debt Service	5,760	0.02743	5,133	0.02740
Total Conservation Futures Levy	<u>13,114</u>	<u>0.06246</u>	<u>11,698</u>	<u>0.06246</u>
Unlimited Tax G.O. Bonds (Voter-approved Excess Levy)	39,466	0.18952	38,459	0.20735
Total Countywide Levy	<u>304,062</u>	<u>1.44949</u>	<u>290,369</u>	<u>1.55218</u>
EMS Levy(5) Assessed Valuation: \$135,490,009,367 <sup>(1)(6)</sup>	33,734	0.25000	30,089	0.24624
Unincorporated County Levy Assessed Valuation: \$32,030,919,942 <sup>(1)(6)</sup>				
County Road Fund	55,069	\$ 1.72810	50,937	\$ 1.72628
Total County Tax Levies	<u>\$ 392,865</u>		<u>\$ 371,395</u>	

- (1) Assessed valuation for taxes payable in 2002.
- (2) The operating levy tax rate is statutorily limited to \$1.80 per \$1,000 of assessed valuation.
- (3) The Automated Fingerprint Identification System (AFIS) levy is a regular property tax to be assessed for five years beginning in 2001 at a levy rate of not more than \$0.05784 per \$1,000 of assessed valuation as authorized by RCW 84.55.050 and a proposition approved by a majority of the voters of King County. The levy was approved by the voters for the period 1996-2000 at a rate of no more than \$0.0665 per \$1,000 of assessed value.
- (4) The Conservation Futures levy tax rate is statutorily limited to \$.0625 per \$1,000 of assessed valuation.
- (5) The Emergency Medical Services (EMS) levy shown excludes that portion of the levy within the City of Seattle. The levy was approved by the voters of King County for a six-year period with collection beginning in 2002.
- (6) The tax rate is statutorily limited to a maximum of \$2.25 per \$1,000 of assessed valuation.

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 6 – CAPITAL ASSETS****Primary Government**

The following is a summary of changes in capital assets for the King County Primary Government:

CHANGES IN CAPITAL ASSETS					
FOR THE YEAR ENDED DECEMBER 31, 2002					
	BALANCE				BALANCE
	01/01/02	ADJUSTMENTS	INCREASES	DECREASES	12/31/02
<b>Governmental Activities:</b>					
Capital assets not being depreciated					
Land	\$ 350,015,320	\$126,519,671	\$ 36,140,470	\$ (4,802,991)	\$ 507,872,470
Infrastructure	-	501,569,224	101,471,722	(16,688)	603,024,258
Work in progress	64,560,663	19,561,960	42,312,441	(15,290,376)	111,144,688
Total capital assets not being depreciated	414,575,983	647,650,855	179,924,633	(20,110,055)	1,222,041,416
Capital assets being depreciated					
Buildings	482,582,177	1,189,149	5,726,248	(2,997,353)	486,500,221
Equipment	113,754,759	73,800,226	14,512,488	(13,841,344)	188,226,129
Total capital assets being depreciated	596,336,936	74,989,375	20,238,736	(16,838,697)	674,726,350
Less accumulated depreciation for:					
Buildings	-	(120,551,344)	(25,736,890)	9,054,457	(137,233,777)
Equipment	-	(117,055,641)	(27,037,597)	32,296,635	(111,796,603)
Total capital assets being depreciated - net	596,336,936	(162,617,610)	(32,535,751)	24,512,395	425,695,970
Governmental activities capital assets - net	\$1,010,912,919	\$485,033,245	\$147,388,882	\$ 4,402,340	\$1,647,737,386
<b>Business-type Activities</b>					
Capital assets not being depreciated					
Land	\$ 184,697,558	\$ (3,457,400)	\$ 27,389,248	\$ (4,086,039)	\$ 204,543,367
Work in progress	345,381,557	(2,025,963)	295,436,614	(175,661,194)	463,131,014
Total capital assets not being depreciated	530,079,115	(5,483,363)	322,825,862	(179,747,233)	667,674,381
Capital assets being depreciated					
Buildings	679,536,526	-	32,993,501	(9,335)	712,520,692
Improvements other than buildings	1,327,926,898	(1,189,149)	72,473,635	(6,309,434)	1,392,901,950
Equipment	1,664,182,008	(73,800,226)	91,229,206	(36,522,352)	1,645,088,636
Total capital assets being depreciated	3,671,645,432	(74,989,375)	196,696,342	(42,841,121)	3,750,511,278
Less accumulated depreciation for:					
Buildings and improvements	(718,944,130)	206,532	(62,836,414)	3,592,782	(777,981,230)
Equipment	(827,757,064)	45,336,168	(122,319,478)	25,109,064	(879,631,310)
Total capital assets being depreciated - net	2,124,944,238	(29,446,675)	11,540,450	(14,139,275)	2,092,898,738
Business-type activities capital assets - net	\$2,655,023,353	\$ (34,930,038)	\$334,366,312	\$ (193,886,508)	\$2,760,573,119

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 6 – CONTINUED****Adjustments**

The adjustments column in the preceding schedule is explained below:

*Governmental Activities*

2002 beginning balance in road network infrastructure	\$ 501,569,224
2002 beginning balance in construction-in-progress related to infrastructure	9,826,280
2002 beginning balance in right-of-way	123,062,271
Capitalize prior year costs as construction-in-progress	7,709,717
2002 beginning balance in accumulated depreciation on governmental capital assets	(192,064,285)
Correction to reflect Cedar Hills landfill site as governmental capital asset	3,457,400
Reclass 2002 beginning balance of governmental internal service funds net capital assets	31,472,638
TOTAL	<u><u>\$ 485,033,245</u></u>

*Business-type Activities*

Correction to remove Cedar Hills landfill site from Solid Waste enterprise	\$ (3,457,400)
Reclass 2002 beginning balance of governmental internal service funds net capital assets	(31,472,638)
TOTAL	<u><u>\$ (34,930,038)</u></u>

**Depreciation Expense**

Depreciation expense was charged to functions of the primary government as follows:

*Governmental activities*

General government services	\$ 11,142,273
Law, safety & justice	13,184,160
Physical environment	415,486
Transportation	1,875,697
Economic environment	748,795
Mental & physical health	2,547,871
Culture & recreation	2,634,911
Capital assets held by the County's governmental internal service funds are charged to governmental activities based on their usage of the assets	7,652,711
Total depreciation expense – governmental activities	<u><u>\$ 40,201,904</u></u>

*Business-type activities*

Water	\$ 88,381,506
Transit	69,691,940
Solid Waste	9,999,106
Airport	1,048,934
Radio Communications	1,554,696
Institutional Network	325,318
Capital assets held by the County's business-type internal service funds are charged to business-type activities based on their usage of the assets	360,386
Total depreciation expense -- business-type activities	<u><u>\$ 171,361,886</u></u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 6 – CONTINUED**

Most of the County's internal service funds provide service to governmental departments. During 2002 two internal service funds, the Wastewater Equipment Rental fund and the Transit Non-Revenue Vehicles fund, exclusively supported enterprise departments; depreciation on their capital assets is charged to business-type activities.

**Infrastructure**

This is the County's first year of implementation of GASB 34, which includes the retroactive reporting of infrastructure capital assets. Infrastructure capital assets are long-lived capital assets that are normally stationary in nature and of value only to the government. Typically, they can be preserved for a significantly greater number of years than most capital assets. Included in King County's infrastructure is the roads and bridges network (including traffic control elements) maintained by the Roads Division of the Department of Transportation. The roads and bridges network infrastructure is reported using the modified approach. Under the modified approach, the County does not depreciate the roads and bridges network infrastructure. In lieu of depreciation, the County is required to present maintenance information to demonstrate that it is preserving the network up to an acceptable, preset condition level.

**Roads and Bridges Infrastructure Valuation**

The roads and bridges infrastructure network acquired or constructed prior to 2002 is valued at estimated historical cost. Estimates of 2001 replacement costs for all existing roads and 1988 replacement costs for all bridges were obtained using standard costing methods with the resultant values being deflated to the acquisition year (or estimated acquisition year, where the actual year was unknown), using the Engineering News Record Construction Cost Index. Retroactive reporting of traffic control elements is based on replacement cost.

**Land**

Land also includes right-of-way and farmland development rights.

**Right-of-Way Assets**

Right-of-way assets related to roads and bridges have not been reported prior to 2002. Estimated historical costs for these assets were obtained by estimating replacement costs at 2001 using land assessed valuation data and then deflating the resultant values to the acquisition year (or estimated acquisition year, where the actual year is unknown), using assessed land value indices from the King County Assessor's Office.

**Farmland Development Rights**

The Farmland Preservation Program was established to preserve, protect, and enhance agricultural lands and open spaces. Under this program, the County has acquired farmland development rights for over 12,500 acres. "Development rights" are the rights to develop land for any uses other than farming or open space. The owner who sells development rights sells only a part of an owner's property rights and retains all other ownership rights. The owner can live on the land and use it for agriculture or open space purposes, or transfer or sell the land. However, the owner of the land for which King County has purchased the development rights may not build non-farm commercial or residential buildings on the land or subdivide the land for

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 6 – CONTINUED**

commercial or residential development. The development rights, so purchased, are held in trust by the County for the benefit of its citizens in perpetuity.

**Real Property Under Capital Lease**

King County land and buildings include the capitalized costs of the King Street Center (\$78.2 million) and the Issaquah District Court (\$5.9 million). These properties are legally owned by private property management companies who are leasing the buildings to the County under terms which are in substance capital leases. The rental payments collected include the monthly debt service costs of the privately issued bonds used to construct the buildings. The lease contracts provide for a bargain purchase option at the end of the lease term. The capital lease obligations are reported as governmental activities long-term liabilities of the County.

**Capital Assets Reverting to Private Ownership in Future Years**

Governmental buildings in the amount of \$4,634,841, financed by grants from the State of Washington as authorized under Referendums #29 and #37, revert to private ownership in future years.

**Artwork**

Artwork that meets the threshold of \$1,000 is capitalized.

**Construction Commitments**

Project commitment is defined as authorized and planned expenditures for the next fiscal year. These commitments, totaling \$1.3 billion, will be funded from existing capital projects fund undesignated fund balances of \$31.0 million, future borrowing, and other future revenues.

**Proprietary Funds**

- Public Transportation Enterprise - \$494.7 million is committed to maintenance of existing infrastructure, replacement of aging fleet, and expansion of transit base capacity.
- Solid Waste Enterprise - \$62.8 million is committed to improving solid waste facilities and to ensuring compliance with legal requirements.
- Water Quality Enterprise - \$573.0 million is committed to ensuring the continued operation, reliability and compliance with regulatory standards of wastewater treatment facilities.
- Other enterprises - \$24.9 million is committed to construction and acquisition projects at the King County International Airport and \$1.2 million is for equipment acquisition in the Radio Communications Enterprise.

**Capital Projects Funds**

\$460.5 million is committed to the acquisition or development of capital improvements, including new building construction, building improvements, seismic upgrades, energy conservation, purchase of open space, road construction and widening, improvements within the surface water management program, repair and replacement of general government facilities, and cultural programs.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 6 – CONTINUED**

**Discretely presented component units**

Harborview Medical Center (HMC)

Capital assets activity for HMC for the year ended June 30, 2002, was as follows:

	BALANCE 07/01/01	INCREASES	DECREASES	BALANCE 06/30/02
Capital assets not being depreciated:				
Land	\$ 1,585,972	\$ -	\$ -	\$ 1,585,972
Work in progress	8,893,842	5,438,778	5,843,992	8,488,628
Total capital assets not being depreciated	10,479,814	5,438,778	5,843,992	10,074,600
Capital assets being depreciated:				
Buildings	174,503,658	2,926,885	-	177,430,543
Improvements other than buildings	1,269,137	-	-	1,269,137
Equipment	215,058,538	19,511,825	764,373	233,805,990
Total capital assets being depreciated	390,831,333	22,438,710	764,373	412,505,670
Less accumulated depreciation for:				
Buildings	(54,752,072)	(5,698,883)	-	(60,450,955)
Improvements other than buildings	(526,837)	(59,453)	-	(586,290)
Equipment	(104,949,149)	(17,228,864)	(747,366)	(121,430,647)
Total capital assets being depreciated - net	230,603,275	(548,490)	17,007	230,037,778
HMC capital assets, net	\$ 241,083,089	\$ 4,890,288	\$ 5,860,999	\$ 240,112,378

In addition to the above, HMC also has property held for future use which at June 30, 2002, consisted of:

	Cost	Accumulated Depreciation
Land	\$ 2,717,798	\$ -
Buildings	1,753,520	571,976
Improvements other than buildings	26,344	24,149
Total	\$ 4,497,662	\$ 596,125

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 6 – CONTINUED**

Washington State Major League Baseball Stadium Public Facilities District (WSMLB)

Capital assets activity for the WSMLB as of December 31, 2002, was as follows:

	BALANCE 01/1/02	INCREASES	DECREASES	BALANCE 12/31/02
Capital assets not being depreciated:				
Land	\$ 38,498,454	\$ -0-	\$ -0-	\$ 38,498,454
Capital assets being depreciated:				
Baseball stadium	488,841,352	-	-	488,841,352
Improvements other than buildings	4,094,796	3,409,875	-	7,504,671
Equipment	46,150	-	-	46,150
Total capital assets being depreciated	492,982,298	3,409,875	-0-	496,392,173
Less accumulated depreciation for:				
Baseball stadium	(30,442,369)	(12,238,157)	-	(42,680,526)
Improvements other than buildings	(102,370)	(85,247)	-	(187,617)
Equipment	(39,869)	(4,139)	-	(44,008)
Total capital assets being depreciated - net	462,397,690	(8,917,668)	-0-	453,480,022
WSMLB capital assets, net	<u>\$ 500,896,144</u>	<u>\$ (8,917,668)</u>	<u>\$ -0-</u>	<u>\$ 491,978,476</u>



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS**

Substantially all full-time and qualifying part-time County employees participate in either the Public Employees' Retirement System (PERS), the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF), or the Seattle City Employees' Retirement System (SCERS). PERS and LEOFF are statewide local government retirement systems administered by the State of Washington's Department of Retirement Systems under cost-sharing, multiple-employer defined benefit public employee retirement systems.

The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380.

Historical trend and other information regarding SCERS is presented in the Seattle City Employees' Retirement System annual financial report. A copy of this report may be obtained at: Seattle City Employees' Retirement System, 801 Third Avenue, Suite 300, Seattle, WA 98104.

**Public Employees' Retirement System (PERS) Plans 1, 2, and 3**

Plan Descriptions

PERS is a cost-sharing, multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts (other than judges in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees (not in national higher education retirement programs); judges of district and municipal courts; and employees of local governments. PERS participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees, have the option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement at any age after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation per year of service, capped at 60 percent. The average final compensation is based on the greatest compensation during any 24 eligible consecutive compensation months. If qualified, after reaching the age of 66 a cost-

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – CONTINUED**

of-living allowance is granted based on years of service credit and is capped at 3 percent annually.

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the average final compensation per year of service. The average final compensation is based on the greatest compensation during any eligible consecutive 60-month period. Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including twelve months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit and Plan 3 provides the same cost-of-living allowance as Plan 2. The defined contribution portion can be distributed in accordance with an option selected by the member, either as a lump sum or pursuant to other options authorized by the Employee Retirement Benefits Board.

Statewide there are 1,155 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	62,189
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	18,412
Active Plan Members Vested	97,777
Active Plan Members Nonvested	<u>55,159</u>
Total	<u>233,537</u>

**Funding Policy**

Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent and do not vary from year to year. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – CONTINUED**

Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age. The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2002, were as follows:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
Employer*	1.32%	1.32%	1.32%**
Employee	6.00%	0.65%	***

\* The employer rates include the employer administrative expense fee currently set at 0.22%.

\*\* Plan 3 defined benefit portion only.

\*\*\* Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fees, for the years ended December 31 were:

	<u>PERS Plan 1</u>	<u>PERS Plan 2</u>	<u>PERS Plan 3</u>
2002	\$ 1,046,000	\$ 6,766,000	\$ 28,000
2001	2,754,000	15,681,000	
2000	3,994,250	20,658,600	

**Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)**Plan Descriptions

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. Membership in the system includes all full-time, fully compensated local law enforcement officers and firefighters. LEOFF is comprised primarily of non-state employees. LEOFF participants who joined the system by September 30, 1977, are Plan 1 members. Those who joined on or after October 1, 1977, are Plan 2 members. LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays the remainder through state legislative appropriations. LEOFF retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary is as follows:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – CONTINUED**

<u>Term of Service</u>	<u>Percent of Final Average</u>
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The final average salary is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of final average salary. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the final average salary per year of service. The final average salary is based on the 60 consecutive highest-paid service credit months. Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

Statewide there are 359 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of September 30, 2001:

Retirees and Beneficiaries Receiving Benefits	8,078
Terminated Plan Members Entitled to, But Not Yet Receiving, Benefits	332
Active Plan Members Vested	10,894
Active Plan Members Nonvested	<u>4,006</u>
Total	<u>23,310</u>

**Funding Policy**

Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by the Department of Retirement Systems in accordance with chapter 41.45 RCW. All employers are required to contribute at the level required by state law. The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 1 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. The methods used to determine the contribution rates are established under state statute in accordance with chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2002, were as follows:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – CONTINUED**

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
Employer*	0.22%	2.86%
Employee	0.00%	4.39%

\* The employer rates include the employer administrative expense fee currently set at 0.22%.

Both the County and the employees made the required contributions. The County's required contributions, net of administrative fees, for the years ended December 31 were:

	<u>LEOFF Plan 1</u>	<u>LEOFF Plan 2</u>
2002	\$ 0	\$ 1,138,860
2001	0	1,417,425
2000	112,940	1,311,385

**Seattle City Employees' Retirement System (SCERS)**

SCERS is a cost-sharing, multiple-employer retirement plan administered in accordance with chapter 4.36 of the Seattle Municipal Code. County employees of the Department of Public Health who have established membership in SCERS remain covered by the City Retirement System. In addition, employees of Public Transportation who are former employees of Seattle Transit are covered by the system. SCERS provides retirement, death, and disability benefits.

Employees covered by this plan may retire after 30 years of service regardless of age, after age 52 with 20 years or more of service, after age 57 with ten or more years of service, and after age 62 with five or more years of service. Disability retirement is available after ten years of service. The unmodified monthly retirement allowance is based on a percentage of average salary for every year of service to a maximum of 60 percent. The average salary for this plan is defined as the highest consecutive twenty-four months average rate of pay. The percentage for each year of service used to compute the retirement benefit depends on the age at retirement and the years of service, and ranges from 1.2 percent at age 52 with 20 years of service to a maximum of 2 percent for each year of service. The maximum allowance a member can receive is the unmodified plan, which has no provision for a beneficiary and at the member's death all payments stop. Several optional retirement benefit formulas exist which provide for beneficiaries with reduced monthly allowances.

The SCERS member contribution rate is 8.03 percent of compensation except for members qualifying for lower rates prior to June 1972. The County is required to contribute at an actuarially determined rate. The current rate is 8.03 percent of annual covered payroll. The contribution requirements of plan members and the County are established and may be amended by the Board of Administration. Both the County and the employees made the required contributions. The County's required employer contributions for the years 2000, 2001, and 2002 ending December 31 were \$960,600, \$913,700 and \$852,000, respectively.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 7 – CONTINUED**

**Component Unit - Harborview Medical Center (HMC)**

HMC personnel are University of Washington (UW) employees and as such participate in either the State of Washington Public Employees Retirement System or the University of Washington Retirement System (Teachers Insurance and Annuity Association and the College Retirement Equities Fund). All plans include contributions by both employee and employer. Employer contributions are paid monthly by UW in accordance with rates specified by the retirement systems.

**Component Unit – Washington State Major League Baseball (WSMLB) Stadium Public Facilities District (PFD)**

All employees of the District participate in either the Public Employees' Retirement System (PERS) or the Stadium PFD Retirement Plan. Employer contributions are paid by the District in accordance with rates specified by the individual plans. Total payroll covered by all systems for the year ended December 31, 2002, was \$22,860.

As a municipal corporation of the State of Washington, the Washington State Major League Baseball Stadium Public Facilities District (PFD) employees are eligible for membership in the State of Washington Public Employees Retirement System (PERS). The PFD Board of Directors adopted participation in the PERS Plan in 1996. However, admission to PERS was effective February 1, 1997, with the ability to retroactively purchase service credit for employee service earned in 1996. Retroactive payments will be paid over a five-year period.

Employees are also able to select the Stadium PFD Retirement Plan as an alternative benefit plan to PERS. The Plan is designated as a profit-sharing plan in accordance with Section 401 (a)(27)(B) of the Internal Revenue Code. No contribution by participants is required or permitted other than authorized rollover contributions. All contributions to the plan vest immediately. Actual contributions made to the plan in 2002 were \$1,714.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 8 – POST-RETIREMENT HEALTH CARE BENEFITS**

In accordance with the Washington Law Enforcement Officers and Fire Fighters Retirement System (LEOFF) Act (chapter 41.26 RCW), the County provides certain health care benefits for retired full-time, fully compensated law enforcement officers who established membership in the LEOFF I retirement system on or before September 30, 1977. Substantially all of the County's law enforcement officers who established membership in the LEOFF I retirement system may become eligible for those benefits when they reach normal retirement age. The King County Sheriff's Office, in conjunction with the King County Disability Board, reimburses retired LEOFF I police officers for reasonable medical charges as described in the LEOFF Act. In 2002, 317 retirees received benefits under this act. As of December 31, 2002, there were 40 active officers with an average age of 56 who may become eligible for those benefits when they reach normal retirement age.

The cost of retiree health care benefits is recognized as an expenditure in the General Fund as claims are paid. For 2002 those costs total \$1,440,257, with an average cost per retiree of \$4,530.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 9 – RISK MANAGEMENT**

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability, excluding that related to Public Transportation and Water Quality Enterprises, is accounted for in the funds with loss experience and as governmental long-term debt. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

**Insurance Fund**

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County which include those that are commonly covered by general liability, automobile liability, police professional, directors and officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2002, is \$43,247,000.

The County has been able to purchase insurance to cover property loss exposures but is self-funding the first \$5 million of any one loss for most general liability, automobile liability, police liability, directors and officials, errors and omissions, and Health Department professional malpractice exposures.

Since October 1, 1995, the County has purchased excess liability coverage that provides \$50 million in limits above the \$5 million per occurrence self-insured retention. Prior to 1995, the County's excess liability policy limits were \$20 million and the former Metro government policy limits were \$45 million. Effective August 1, 1997, the County increased limits to \$75 million above its \$5 million self-insured retention. Effective September 1, 1998, the County increased limits to \$100 million above a \$2.5 million per occurrence self-insured retention. The County also purchased property insurance that provided a blanket limit of \$3.3 billion with \$240 million in earthquake and \$150 million in flood limits.

Effective June 1, 2002, the County renewed the property insurance policy with FM Global Insurance Company. This policy has a blanket limit of \$500 million above a \$100,000 per occurrence deductible. FM Global had previously provided a blanket limit equal to the County's total insured values of \$3.2 billion. The event of 9/11 caused property underwriters to pull back on the offering of total insured value blanket limits, as their reinsurers were unable and unwilling to provide the excess limits. The policy provides an overall earthquake sub-limit of \$165 million with an additional earthquake sub-limit of \$75 million for seven buildings (including the Courthouse) identified as having a higher probability of damage in the earthquake. This policy also contains a \$1 million terrorism sub-limit.



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 9 – CONTINUED**

In addition to its property insurance policies and excess liability policy, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a property and liability policy to cover the police helicopter activities (with liability limits of \$50 million); and excess coverage for the Workers' Compensation program. The County also has a combined "crime" coverage policy that provides \$5 million in limits with a \$25,000 deductible.

Coverage is provided for protection against loss caused by employee dishonesty; the dishonest acts of third parties in writing or altering checks or other financial instruments; the theft, disappearance and destruction of monies at County locations or when conveyed by a messenger; and for faithful performance of duty. In the past three years, two occurrences have resulted in payments in excess of the self-insured retention. There have been no settlements in excess of the insurance coverage in the prior three years.

During 2002 there were significant changes made in the County's insurance program. The County experienced a significant increase in premiums for excess liability insurance from \$2.185 million to \$3.016 million (on an annualized basis) for \$97.5 million in limits. The substantial increase in premium is attributable to our recent large loss experiences (Aurora Bridge and the Solid Waste landfill cases), the substantial tightening in the insurance marketplace and several recent large outcomes within Washington State involving other governmental entities. The County was able to retain a \$2.5 million per occurrence self-insured retention (SIR) but must satisfy an annual \$1 million "corridor" deductible of \$1 million above our \$2.5 million SIR. (The County must pay an additional \$1 million self-insured retention either from a single large loss or a combination of losses above the County's \$2.5 million deductible.)

In line with the increasing importance of its program of self-insurance, the County has significantly increased funding for the program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from \$2.1 million at December 31, 1985, to more than \$74 million at December 31, 2002.

In addition to funding reserves for known and incurred-but-not-reported cases, the County has adopted a plan to create catastrophic loss reserves to respond to large, non-recurring losses. The catastrophic loss financing program is financed with annual contributions in excess of \$1 million with interest earnings being invested to the benefit of the catastrophic loss reserves. Through December 31, 2002, \$16.4 million of the \$72 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 14, "Restriction, Reserves, Designations, and Changes in Equity").

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. Nonincremental claim adjustment expenses are not included as part of the liability. The changes in the Insurance Fund's claims liability in 2001 and 2002 were as follows:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 9 – CONTINUED**

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2001	\$ 49,191,000	\$ 8,390,564	\$ (11,391,335)	\$ 46,190,229
2002	46,190,229	3,733,558	(6,676,787)	43,247,000

**Safety and Workers' Compensation Fund**

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under Title 51 RCW, Industrial Insurance Act. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2002, is \$15,970,000.

The County purchases an excess workers' compensation policy that provides statutory limits coverage. The amount of loss retained by King County (the self-insured retention) under this policy, effective July 2002, was increased from \$500,000 to \$1,000,000. There has been one settlement in excess of the insurance coverage in the prior three years.

The Fund's claims liability is estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. Changes in the Safety and Workers' Compensation Fund's claims liability in 2001 and 2002 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2001	\$ 12,420,000	\$ 14,038,600	\$ (13,958,600)	\$ 12,500,000
2002	12,500,000	18,134,233	(14,664,233)	15,970,000

**Employee Benefits Program Fund**

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are six insured and two self-insured medical plans. Fifty-one percent of County employees were insured through the two self-insured medical plans. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee, per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2002, is \$11,127,133.

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2001 and 2002 were:

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 9 – CONTINUED**

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2001	\$ 10,686,287	\$ 59,738,051	\$ (59,662,345)	\$ 10,761,993
2002	10,761,993	72,223,017	(71,857,877)	11,127,133

**Unemployment Liability**

The County has elected to retain the risk for unemployment compensation payable to former county employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various county funds. In addition, a long-term liability of \$1,531,615 is recorded in governmental long-term debt for the estimated future claims liability for employees as of December 31, 2002.

Changes in governmental long-term debt liability for unemployment compensation in 2001 and 2002 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2001	\$ 1,051,155	\$ 1,534,576	\$ (1,412,968)	\$ 1,172,763
2002	1,172,763	2,204,171	(1,845,319)	1,531,615

**Component Unit – Harborview Medical Center****Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2002, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately \$924,000 in the period July 1, 2000 to June 30, 2001, and \$1,042,802 in the period July 1, 2001 to June 30, 2002.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 9 – CONTINUED**

Employee Benefits Program

Term insurance, salary continuation insurance, and a variety of medical insurance plans are available on a group basis to all permanent employees of HMC. The plans are designated and authorized through the State Employees Insurance Board covering all eligible faculty and staff of the public institutions of higher education.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensations for permanent partial and total disability, and allowances and pensions to surviving widows and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

**Component Unit – WSMLBS Public Facilities District**

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. In addition, excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100,000 with separate coverages for earthquake and flood losses.

The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 10 – LEASES****Capital Leases**

King County has entered into agreements to purchase buildings, machinery, and equipment through capital lease and installment purchase agreements. Assets acquired and liabilities incurred through such agreements for governmental funds are accounted for in the Governmental Activities. Such assets and liabilities related to proprietary type funds are accounted for within the proprietary funds (Business-type Activities).

The following is a schedule of capital assets and outstanding liabilities relating to capital lease agreements and installment purchase contracts as of December 31, 2002:

	CAPITAL ASSETS		CAPITAL LEASES PAYABLE	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Land	\$ 9,440,486	\$ -	\$ -	\$ -
Building	74,734,514	-	83,470,000	-
Less depreciation	(2,456,847)	-	-	-
Sub-total	<u>81,718,153</u>	<u>-0-</u>	<u>83,470,000</u>	<u>-0-</u>
Machinery and equipment	991,657	125,763,619	300,342	34,883,480
Less depreciation	(536,860)	(43,745,059)	-	-
Sub-total	<u>454,797</u>	<u>82,018,560</u>	<u>300,342</u>	<u>34,883,480</u>
Totals	<u>\$ 82,172,950</u>	<u>\$ 82,018,560</u>	<u>\$ 83,770,342</u>	<u>\$ 34,883,480</u>

The following is a schedule, by year, of future minimum lease payments under capital lease and installment purchase agreements together with the present value of the net minimum lease payments as of December 31, 2002:

	Governmental Activities	Business-type Activities
2003	\$ 6,355,072	\$ 11,818,726
2004	6,299,636	15,648,491
2005	6,239,202	9,033,624
2006	6,225,491	-
2007	6,198,305	-
2008-2012	30,996,476	-
2013-2017	30,993,295	-
2018-2022	29,554,763	-
2023-2027	<u>21,161,426</u>	<u>-</u>
Total minimum lease payments	144,023,666	36,500,841
Less: Amount representing interest	<u>(60,253,324)</u>	<u>(1,617,361)</u>
Present value of new minimum lease payments	<u>\$ 83,770,342</u>	<u>\$ 34,883,480</u>

**Operating Leases**

The County has numerous operating lease commitments for office space, equipment, radio towers, and railroad tracks. The Information and Telecommunications Services Fund leases computer hardware. These leases include maintenance agreements. Expenditures for the year

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

**NOTE 10 – CONTINUED**

ended December 31, 2002, for operating lease and rental agreements for office space, equipment, and other operating leases amount to \$20 million. The patterns of the future lease payment requirements are systematic and rational. Future minimum lease payments for these leases are as follows:

<u>Year</u>	<u>Office Space</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>
2003	\$ 7,520,000	\$ 380,000	\$ 550,000	\$ 8,450,000
2004	4,355,500	317,000	290,000	4,962,500
2005	2,835,000	288,000	241,000	3,364,000
2006	1,930,000	255,000	177,000	2,362,000
2007	780,000	122,000	45,000	947,000
2008-2012	2,613,000		226,000	2,839,000
2013-2017	1,905,000		120,500	2,025,500
2018-2022	990,000		10,000	1,000,000
2023-2027	438,900			438,900
2028-2032	438,900			438,900
2033-2037	44,000			44,000

The County currently leases some of its property to various tenants under long-term, renewable, and non-cancelable contracts. Under business-type activities, the King County Airport Enterprise leases out most of the buildings and grounds in the King County International Airport/Boeing Field complex to companies and government agencies in the aviation industry. Some land and building space devoted to governmental activities are also leased out under long-term operating leases.

The following schedule is an analysis of the County's investment in property under long-term, non-cancelable operating leases as of December 31, 2002:

	<u>Airport Enterprise</u>	<u>Governmental activities</u>
Land	\$ 22,504,350	\$ 479,184
Buildings	6,653,633	1,166,542
Less depreciation		<u>(174,042)</u>
	<u>(9,462,516)</u>	
Total cost of property under lease	<u>\$ 19,695,467</u>	<u>\$ 1,471,684</u>

The following is a schedule of minimum future lease receipts on non-cancelable, operating leases based on contract amounts and terms as of December 31, 2002:

<u>Year ending December 31</u>	<u>Business-type</u>		<u>Governmental</u>	<u>Total</u>
	<u>Airport</u>	<u>Other</u>	<u>Various</u>	
2003	\$ 5,355,083	\$ 118,203	\$ 2,135,814	\$ 7,609,100
2004	5,275,970	99,970	2,039,386	7,415,326
2005	5,129,020	54,040	1,853,517	7,036,577
2006	5,080,295	25,500	1,751,129	6,856,924
2007	4,823,844	8,750	1,630,500	6,463,094
2008-2012	23,242,387		5,644,490	28,886,877
2013-2017	20,577,832		3,581,144	24,158,976

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 11– LANDFILL CLOSURE AND POST-CLOSURE CARE COSTS**

King County is legally responsible for closure and post-closure care costs associated with the County's solid waste landfills. Estimated costs of closure and post-closure care are recognized as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in current dollars. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

State and federal laws and regulations require King County to place a final cover on its Cedar Hills and Vashon landfill sites when the County stops accepting waste at these sites. Performance of certain maintenance and monitoring functions are also required at the sites for 30 years following closure. (Enumclaw, Hobart, Duvall, and Cedar Falls landfills have been covered. Puyallup, Houghton, Bow Lake, First Northeast, and South Park are custodial landfills which were covered 30 or more years ago, and are no longer subject to the laws and regulations.)

Although closure and post-closure care costs will be paid only near or after the date that the landfills stop accepting waste, the County reports a portion of these costs as an operating expense in each period. The expense is based on landfill capacity used as of each balance sheet date. The \$95.3 million reported as landfill closure and post-closure care liability at December 31, 2002, represents the cumulative amount reported to date based on the percentage use of the landfills as follows:

<u>Landfill</u>	<u>Percent Filled</u>	<u>Estimated Liability (in millions)</u>	<u>Estimated Remaining Liability (in millions)</u>	<u>Estimated Year of Closure</u>
Cedar Hills	73%	\$ 57.7	\$ 26.8	2012
Vashon	100%	14.3	-	-
Covered	100%	13.8	-	-
Custodial	100%	9.5	-	-

The County is required by state and federal laws and regulations to make annual contributions to a reserve fund to finance closure and post-closure care. The County is in compliance with these requirements. As of December 31, 2002, cash and cash equivalents of \$28.5 million were held in the Landfill Reserve Fund, which is reported as restricted assets on the balance sheet. In addition, cash and cash equivalents of \$32.0 million were held in the Landfill Post-closure Maintenance Fund, which is a fund designated by management for these purposes.

The County expects future inflation cost will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate, or additional post-closure care requirements are determined (due to changes in technology or regulations), these costs may need to be covered by charges to future landfill users or from future tax revenues.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 11- CONTINUED**

The County also established the Environmental Reserve Fund for future investigation and possible remediation of custodial landfills. Cash and cash equivalents total \$1.7 million in this fund. The related estimated liability for the custodial landfill costs is \$49,978. This estimate includes only those costs that are reasonable and quantifiable and for which schedules may be forecast.

The total restricted assets including those related to post-closure care costs are as follows:

\$ 46,683,858	<u>Solid Waste Landfill Reserve Sub-fund</u> – Established to provide for facility relocation, closure, post-closure maintenance, and replacement costs at the Cedar Hills and Vashon landfills. Funding has consisted of a disposal fee rate factor, presently \$10.75 per ton.
1,728,019	<u>Environmental Reserve Sub-fund</u> – Established to provide for remediation costs related to closed and abandoned landfill sites which the King County Solid Waste Division owns, or has custodial responsibility for, and for costs related to inverse condemnation claims that result from King County solid waste activities.
13,045,777	<u>Solid Waste Capital Equipment Recovery Sub-fund</u> – Established to support the equipment owned by the Solid Waste Division and to ensure that adequate reserves are available to replace equipment when it has reached the end of its useful life. Funding is from annual transfers from the Solid Waste Operating Fund.
25,508,564	<u>Solid Waste Construction Sub-funds</u> – Established in 1993 to provide for the acquisition and development of solid waste capital improvements. Funding sources include transfers from the operating fund and general obligation bond issues, which are accounted for in separate sub-funds.
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\$ 86,966,218	Total Solid Waste restricted assets.
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NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

**NOTE 12 – DEBT**

**Short-term debt instruments and liquidity**

For the year ended December 31, 2002, King County has two short-term debt instruments outstanding. On October 1, 2002, King County issued \$85 million limited tax general obligation bond anticipation notes with a maturity date of October 1, 2003. The proceeds of the notes were used to provide interim financing for the seismic retrofit of the County Courthouse and other building construction and improvement projects. Also, a portion of the note proceeds was used to pay and retire the 2001 notes in the amount of \$65 million that matured on October 1, 2002. The County intends to finance the repayment of the 2002 notes by issuing replacement bond anticipation notes in 2003.

The County has \$93.3 million of commercial paper outstanding in the Water Quality Enterprise Fund. The commercial paper has maturities ranging from 67 to 111 days. The balance of the commercial paper was \$83.5 million until June 8, 2002, when it was increased to \$100 million by issuance of additional debt. The balance remained constant at \$100 million until December 20, 2002, when \$6.7 million was repaid from operating revenues. At the time of initial issuance the proceeds of the commercial paper were transferred to the construction fund for use in the capital activities of the enterprise. Repayment of the debt will be made from operating revenues.

A summary of changes in short-term debt is provided by the following schedule:

**CHANGES IN SHORT-TERM DEBT  
FOR THE YEAR ENDED DECEMBER 31, 2002**

	BALANCE 01/01/02	INCREASES	DECREASES	BALANCE 12/31/02
<b>Governmental activities:</b>				
Limited tax GO bond anticipation notes	\$ 65,000,000	\$ 85,000,000	\$ (65,000,000)	\$ 85,000,000
Unamortized premium bonds sold	-	627,937	-	627,937
Governmental activities short-term debt	<u>\$ 65,000,000</u>	<u>\$ 85,627,937</u>	<u>\$ (65,000,000)</u>	<u>\$ 85,627,937</u>
<b>Business-type activities:</b>				
Commercial paper	\$ 83,500,000	\$ 16,500,000	\$ (6,700,000)	\$ 93,300,000
Business-type activities short-term debt	<u>\$ 83,500,000</u>	<u>\$ 16,500,000</u>	<u>\$ (6,700,000)</u>	<u>\$ 93,300,000</u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 12 – CONTINUED**

**Long-term debt**

King County has long-term debt included with both governmental and business-type activities. Governmental activities long-term debt consists of general obligation bonds, general obligation capital leases, and special assessment bonds with governmental commitment. Special assessment bonds are guaranteed for payment from resources of the Road Improvement Guaranty Fund if a road improvement district fails to pay.

Business-type activities long-term debt consists of limited general obligation bonds accounted for in the King County International Airport, Solid Waste, Public Transportation, and Water Quality Enterprise Funds; revenue capital leases accounted for in Public Transportation Fund; and revenue bonds accounted for in the Water Quality Enterprise.

Three schedules in this note are reported on a basis that is different from the government-wide Statement of Net Assets. The Schedule of Long-term Debt, the Debt Service Requirements to Maturity, and the Computation of Legal Debt Margin are reported on a legal basis, which is different from Generally Accepted Accounting Principles (GAAP), in order to demonstrate legal compliance. These schedules consider all of King County's debt as of December 31, 2002, which includes a portion of the debt reported on the government-wide Statement of Net Assets as Component Unit debt as of June 30, 2002, in accordance with GAAP.

**KING COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 1 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
I. GOVERNMENTAL ACTIVITIES - LONG TERM DEBT				
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS				
LIMITED GENERAL OBLIGATION DEBT				
Limited general obligation bonds				
Payable from Limited G.O. Bond Redemption Fund				
1993 Various Purpose Series "A" (Partial)	01/01/93	5.80% to 8.80%	\$ 52,695,900	\$ 1,528,446
1993 Various Purpose Series "B" (Partial)	12/01/93	5.35% to 6.70%	109,435,833	67,800,000
1996 Various Purpose Series "A" (Partial)	02/01/96	5.00% to 5.25%	105,268,054	72,730,000
1996 Refunding Series "B"	03/01/96	4.10% to 4.60%	10,348,276	7,035,626
1997 Baseball Stadium Parking Facilities(Taxable) Series "C"	04/01/97	7.06% to 7.79%	25,000,000	23,660,000
1997 Baseball Stadium Series "D"	04/17/97	4.60% to 5.75%	150,000,000	130,640,000
1997 Kingdome Debt Service Reimburse (Taxable) Series "E"	12/01/97	6.25% to 6.88%	6,595,000	6,515,000
1997 Kingdome Debt Refunding Series "F"	12/01/97	5.00% to 5.20%	51,525,000	51,390,000
1997 Various Purpose Series "G" (Partial)	12/01/97	4.50% to 5.00%	72,080,000	49,360,000
1999 Various Purpose Series "A" (Partial)	05/01/99	4.00% to 5.25%	85,694,670	55,318,158
2001 Various Purpose (Partial)	11/15/01	3.00% to 5.00%	26,925,000	25,475,000
2002 Refunding Series (Baseball Stadium)	05/20/02	4.00% to 5.50%	124,575,000	113,480,000
2002 Various Purpose (Road CIP)	09/30/02	2.00% to 5.00%	38,340,000	38,340,000
Total payable from limited G.O Redemption Fund			<u>858,482,733</u>	<u>643,272,230</u>
Payable from Internal Service Funds				
1996 Various Purpose "A" (Partial)	02/01/96	5.00% to 5.25%	9,969,883	3,455,000
1997 Various Purpose "G" (Partial)	12/01/97	4.50% to 5.00%	1,270,000	715,000
1999 Limited Tax G.O. Various Purpose Series A	05/01/99	4.00% to 5.25%	525,000	375,000
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	1,050,000	965,000
Total payable from Internal Service Funds			<u>12,814,883</u>	<u>5,510,000</u>
Limited G.O. capital leases				
Payable from General Fund	Various	Various	5,900,000	5,480,000
Payable from Public Health	Various	Various	553,699	246,349
Payable from Various Funds - King Street Center's Tenants	06/01/97	4.50% to 5.13%	78,275,000	77,990,000
Payable from Surface Water Management fund	Various	Various	437,958	53,993
Total limited G.O. capital leases			<u>85,166,657</u>	<u>83,770,342</u>
TOTAL GOVERNMENTAL ACTIVITIES - LIMITED GENERAL OBLIGATION DEBT			<u>\$ 956,464,273</u>	<u>\$ 732,552,572</u>

**KING COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 2 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IA. GOVERNMENTAL ACTIVITIES - GENERAL OBLIGATIONS (continued)				
UNLIMITED GENERAL OBLIGATION BONDS				
Payable from Unlimited G.O. Redemption Fund				
1993 Refunding Series "C"	12/01/93	6.00% to 7.25%	\$ 184,405,000	\$ 130,340,000
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	102,740,000	87,785,000
2001 Harborview Medical Center	01/22/01	4.00% to 5.00%	29,130,000	27,785,000
Total payable from Unlimited General Obligation Bond Redemption Fund			<u>316,275,000</u>	<u>245,910,000</u>
Payable from Stadium G.O. Bond Redemption Fund				
2000 Refunding Bonds	10/01/00	5.00% to 5.50%	<u>18,880,000</u>	<u>16,350,000</u>
TOTAL UNLIMITED GENERAL OBLIGATION BONDS			<u>335,155,000</u>	<u>262,260,000</u>
IB. SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT				
Special assessment bonds with governmental commitment - bonds payable from Road Improvement Districts S.A. Bond Redemption Fund				
RID 19	05/01/75	-0- -0-	1,000	1,000
RID 20	05/01/75	-0- -0-	3,000	1,000
RID 2 Consolidated	07/01/86	7.88% to 8.25%	<u>286,192</u>	<u>135,000</u>
TOTAL SPECIAL ASSESSMENT GENERAL LONG-TERM DEBT			<u>290,192</u>	<u>137,000</u>
TOTAL GOVERNMENTAL ACTIVITIES-LONG-TERM DEBT			<u>\$ 1,291,909,465</u>	<u>\$ 994,949,572</u>
II. BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT				
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS				
Limited general obligation bonds				
Payable from Enterprise Funds				
1993 Various Purpose "A" (Partial)	01/01/93	4.30% to 6.00%	\$ 44,538,267	\$ 16,566,554
1994 Limited Tax (Water Quality) Series A	04/01/94	5.80% to 6.40%	170,000,000	4,200,000

**KING COUNTY, WASHINGTON  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

SCHEDULE OF LONG-TERM DEBT  
(Page 3 of 3)

	ISSUE DATE	INTEREST RATES	ORIGINAL AMOUNT	OUTSTANDING
IIA. BUSINESS-TYPE ACTIVITIES - GENERAL OBLIGATIONS (continued)				
1995 Limited Tax (Water Quality) Series A	05/01/95	5.50% to 5.88%	\$ 90,000,000	\$ 88,365,000
1996 Limited Tax Refunding Series "B" (Partial)	03/01/96	4.10% to 4.75%	12,631,724	10,199,374
1996 Limited Tax G.O. Refunding(Revenue Bonds) Series C	12/15/96	5.00% to 6.25%	130,965,000	105,160,000
1998 LTGO (Public Transport. Sales Tax) Refunding Series A	05/15/98	4.50% to 5.00%	85,715,000	68,260,000
1998 Limited Tax G.O. Refunding(WQ-LTGO & REV.) Series B	09/15/98	4.75% to 5.25%	261,625,000	259,350,000
1999 Limited Tax G.O. (Refunding part) Series A	05/01/99	4.00% to 5.25%	8,720,330	8,556,842
2001 Limited Tax G.O. Various Purpose (Partial)	11/15/01	3.00% to 5.00%	8,580,000	8,325,000
2002 LTGO (Public Transportation Sales Tax) Refunding Bonds	10/21/02	3.00% to 5.50%	64,285,000	64,285,000
Total payable from Enterprise Funds			<u>877,060,321</u>	<u>633,267,770</u>
BUSINESS-TYPE ACTIVITIES - REVENUE BONDS, CAPITAL LEASES AND LOANS				
Payable from Enterprise Funds				
Sewer and Drainage Bond Issue 472 Special	05/01/75	-0- -0-	500	500
1999 Sewer Revenue Bonds Series 1	06/01/99	5.25% to 5.50%	80,000,000	80,000,000
1999 Sewer Revenue Bonds Series 2	11/01/99	5.00% to 6.25%	60,000,000	60,000,000
2001 Sewer Revenue Bonds Junior Lien Series A	08/06/01	Variable Rate <sup>(a)</sup>	50,000,000	50,000,000
2001 Sewer Revenue Bonds Junior Lien Series B	08/06/01	Variable Rate <sup>(a)</sup>	50,000,000	50,000,000
2001 Sewer Revenue and Refunding Bonds	11/13/01	3.00% to 5.25%	270,060,000	266,290,000
2002 Sewer Revenue Bonds Series A	08/14/02	5.00% to 5.50%	100,000,000	100,000,000
2002 Sewer Revenue Refunding Bonds Series B	10/03/02	3.00% to 5.50%	346,130,000	346,130,000
2000, 2001, 2002 State of Washington Loans	Various	0.50% to 1.50%	39,795,279	38,195,831
1996 Public Transportation Revenue Capital Leases	Various	5.32%	89,301,567	34,883,480
Total business-type activities revenue bonds, capital leases, and loans			<u>1,085,287,346</u>	<u>1,025,499,811</u>
TOTAL BUSINESS-TYPE ACTIVITIES - LONG-TERM DEBT			<u>1,962,347,667</u>	<u>1,658,767,581</u>
TOTAL LONG-TERM DEBT (EXCLUDING G.O LONG-TERM LIABILITIES)			<u>\$ 3,254,257,132</u>	<u>\$ 2,653,717,153</u>

- (a) The variable rate bonds initially bear interest at Weekly Rates. The Weekly Rate for each Interest Period in the Weekly Mode is to be determined by the Remarketing Agents. The bonds in the Weekly Mode may be changed to or from the Weekly Mode to or from a Daily Mode, a Commercial Paper Mode, or a Long term Mode, or to a Fixed Mode, upon satisfaction of the "Change in Modes" conditions.

**KING COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2002

(PAGE 1 OF 2)

GOVERNMENTAL ACTIVITIES

YEAR	GENERAL OBLIGATION BONDS		GENERAL OBLIGATION CAPITAL LEASES		SPECIAL ASSESSMENT BONDS (WITH GOVERNMENTAL COMMITMENT)		TOTAL GOVERNMENTAL ACTIVITIES	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2003	\$ 62,831,014	\$ 45,950,502	\$ 2,128,072	\$ 4,226,999	\$ -	\$ 11,062	\$ 64,959,086	\$ 50,188,563
2004	63,418,795	42,747,529	2,169,200	4,130,439	-	11,062	65,587,995	46,889,030
2005	66,748,990	39,713,769	2,212,260	4,026,942	-	11,062	68,961,250	43,751,773
2006	70,398,472	36,450,070	2,305,810	3,919,681	-	11,062	72,704,282	40,380,813
2007	73,993,041	32,964,951	2,390,000	3,808,305	2,000	11,062	76,385,041	36,784,318
2008-2012	316,926,918	114,218,949	13,885,000	17,111,476	135,000	11,062	330,946,918	131,341,487
2013-2017	212,685,000	34,798,985	17,860,000	13,133,295	-	-	230,545,000	47,932,280
2018-2022	36,460,000	5,463,093	21,610,000	7,944,763	-	-	58,070,000	13,407,856
2023-2027	7,580,000	344,926	19,210,000	1,951,426	-	-	26,790,000	2,296,352
2028-2032	-	-	-	-	-	-	-	-
2033-2037	-	-	-	-	-	-	-	-
	<u>\$ 911,042,230</u>	<u>\$ 352,652,774</u>	<u>\$ 83,770,342</u>	<u>\$ 60,253,326</u>	<u>\$ 137,000</u>	<u>\$ 66,372</u>	<u>\$ 994,949,572</u>	<u>\$ 412,972,472</u>

**KING COUNTY, WASHINGTON**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

DEBT SERVICE REQUIREMENTS TO MATURITY AS OF DECEMBER 31, 2002

(PAGE 2 OF 2)

BUSINESS-TYPE ACTIVITIES

YEAR	GENERAL OBLIGATION BONDS		REVENUE BONDS CAPITAL LEASES AND LOANS		TOTAL BUSINESS-TYPE ACTIVITIES		TOTAL LONG-TERM DEBT (EXCLUDING GENERAL OBLIGATION LONG-TERM LIABILITIES)	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2003	\$ 16,408,987	\$ 33,043,508	\$ 23,629,152	\$ 39,720,611	\$ 40,038,139	\$ 72,764,119	\$ 104,997,225	\$ 122,952,682
2004	17,631,204	32,051,641	35,280,092	45,089,031	52,911,296	77,140,672	118,499,291	124,029,702
2005	19,176,010	31,142,317	30,331,104	42,861,946	49,507,114	74,004,263	118,468,364	117,756,036
2006	18,321,528	30,219,870	24,101,843	41,806,876	42,423,371	72,026,746	115,127,653	112,407,559
2007	18,731,959	29,308,726	25,866,496	40,661,401	44,598,455	69,970,127	120,983,496	106,754,445
2008-2012	84,128,082	133,864,244	148,325,317	182,794,427	232,453,399	316,658,671	563,400,317	448,000,158
2013-2017	90,530,000	112,113,923	168,058,011	141,152,739	258,588,011	253,266,662	489,133,011	301,198,942
2018-2022	82,310,000	87,912,638	97,592,796	108,811,204	179,902,796	196,723,842	237,972,796	210,131,698
2023-2027	108,365,000	63,650,113	115,180,000	81,959,942	223,545,000	145,610,055	250,335,000	147,906,407
2028-2032	107,315,000	37,066,256	248,400,000	47,900,238	355,715,000	84,966,494	355,715,000	84,966,494
2033-2037	70,350,000	4,196,559	108,735,000	8,561,208	179,085,000	12,757,767	179,085,000	12,757,767
TOTAL	<u>\$ 633,267,770</u>	<u>\$ 594,569,795</u>	<u>\$ 1,025,499,811</u>	<u>\$ 781,319,623</u>	<u>\$ 1,658,767,581</u>	<u>\$ 1,375,889,418</u>	<u>\$ 2,653,717,153</u>	<u>\$ 1,788,861,890</u>

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 12 - CONTINUED**

Long-term liability activity for the year ended December 31, 2002, was as follows:

**CHANGES IN LONG-TERM LIABILITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2002**

	BALANCE 01/01/02	INCREASES	DECREASES	BALANCE 12/31/02	DUE WITHIN ONE YEAR
<b>Governmental activities:</b>					
Bonds payable:					
General obligation bonds	\$ 923,854,749	\$ 162,915,000	\$ (186,647,504)	\$ 900,122,245	\$ 62,357,078
Special assessment bonds with governmental commitment	167,000	-	(30,000)	137,000	-
Unamortized premium bonds sold	-	10,877,409	(633,081)	10,244,328	1,284,649
Less deferred amounts:					
For refunding losses	-	(11,432,820)	746,445	(10,686,375)	(1,212,688)
Total bonds payable	<u>924,021,749</u>	<u>162,359,589</u>	<u>(186,564,140)</u>	<u>899,817,198</u>	<u>62,429,039</u>
Limited G.O. capital leases	84,382,920	145,335	(757,913)	83,770,342	2,128,072
Estimated claims settlements	69,452,222	94,090,808	(93,198,897)	70,344,133	63,956,133
Compensated absences liability	57,933,027	8,898,124	(3,112,292)	63,718,859	-
Unemployment compensated liability	1,172,763	2,204,171	(1,845,319)	1,531,615	-
Governmental activities Long-term liabilities	<u>\$ 1,136,962,681</u>	<u>\$ 267,698,027</u>	<u>\$ (285,478,561)</u>	<u>\$ 1,119,182,147</u>	<u>\$ 128,513,244</u>
<b>Business-type activities:</b>					
Bonds payable:					
General obligation bonds	\$ 654,772,502	\$ 64,285,000	\$ (85,789,732)	\$ 633,267,770	\$ 16,408,987
Revenue bonds	890,555,500	446,130,000	(384,265,000)	952,420,500	10,835,500
Less deferred amounts:					
Deferred bond discounts/ refund losses	(83,431,400)	-	23,053,172	(60,378,228)	-
Total bonds payable	<u>1,461,896,602</u>	<u>510,415,000</u>	<u>(447,001,560)</u>	<u>1,525,310,042</u>	<u>27,244,487</u>
Public transportation - capital leases	43,171,791	-	(8,288,311)	34,883,480	11,453,168
State revolving loans	58,774,376	24,457,000	(45,035,545)	38,195,831	1,340,484
Estimated claims settlements and other liabilities	11,639,468	3,274,104	(3,503,630)	11,409,942	9,527,935
Compensated absences liability	41,244,443	4,084,933	-	45,329,376	-
Business-type activities Long-term liabilities	<u>\$ 1,616,726,680</u>	<u>\$ 542,231,037</u>	<u>\$ (503,829,046)</u>	<u>\$ 1,655,128,671</u>	<u>\$ 49,566,074</u> <sup>(a)</sup>

Governmental activities long-term liabilities, other than debt, are primarily estimated claims settlements liquidated by internal service funds. At year-end, internal service funds estimated claims settlements of \$70,344,133 are included in the above amount. For the governmental activities, compensated absences are liquidated by the governmental fund in which an employee is budgeted.

(a) Reconciliation of Business-type activities long-term liabilities "Due within one year" with noncurrent liabilities "Due within one year" per government-wide statement of net assets.

Business-type activities long-term liabilities "Due within one year"	\$ 49,566,074
Less: Amount reported as "Liabilities payable from restricted assets"	(40,575,710)
Business-type activities Noncurrent liabilities "Due within one year"	<u>\$ 8,990,364</u>



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 12 - CONTINUED****Computation of Legal Debt Margin**

Under Washington state law (RCW 39.36.020), a county may incur general obligation debt for general county purposes in an amount not to exceed 2 1/2 percent of the assessed value of all taxable property within the county. State law requires all property to be assessed at 100 percent of its true and fair value. Unlimited tax general obligation debt requires an approving vote of the people, and any election to validate such general obligation debt must have a voter turnout of at least 40 percent of those who voted in the last state general election and, of those voting, 60 percent must be in the affirmative. The County Council may by resolution authorize the issuance of limited tax general obligation debt in an amount up to 1 1/2 percent of assessed value of property within the County for general county purposes and 3/4 percent for metropolitan functions, but the total of limited tax general obligation debt for general county purposes and metropolitan functions should not exceed 1 1/2 percent of assessed value. No combination of limited and unlimited tax debt, for general county purposes, and no combination of limited and unlimited tax debt, for metropolitan functions, may exceed 2 1/2 percent of the valuation. The debt service on unlimited tax debt is secured by excess property tax levies, whereas the debt service on limited tax debt is secured by property taxes collected within the \$1.80 per \$1,000 of assessed value operating levy.

COMPUTATION OF LEGAL DEBT MARGIN  
FOR THE YEAR ENDED DECEMBER 31, 2002

2002 ASSESSED VALUE	\$ 224,994,598,210
Debt limit of limited tax (LT) general obligations for metropolitan functions	
3/4% of assessed value	\$ 1,687,459,487
Less: Net LT general obligation indebtedness for metropolitan functions	(611,061,317)
LT GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 1,076,398,170
Debt limit of LT general obligations for general county purposes and metropolitan functions - 1 1/2% of assessed value	\$ 3,374,918,973
Less: Net LT general obligation indebtedness for general county purposes	(901,435,683)
Net LT general obligation indebtedness for metropolitan functions	(611,061,317)
Net total LT general obligation indebtedness for general county purposes and metropolitan functions	(1,512,497,000)
LT GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES AND METROPOLITAN FUNCTIONS	\$ 1,862,421,973
Debt limit of total general obligations for metropolitan functions	
2 1/2% of assessed value	\$ 5,624,864,955
Less: Net total general obligation indebtedness for metropolitan functions	(611,061,317)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR METROPOLITAN FUNCTIONS	\$ 5,013,803,638
Debt limit of total general obligations for general county purposes	
2 1/2% of assessed value	\$ 5,624,864,955
Less: Net unlimited tax general obligation indebtedness for general county purposes	(249,331,375)
Net LT general obligation indebtedness for general county purposes	(901,435,683)
Net total general obligation indebtedness for general county purposes	(1,150,767,058)
TOTAL GENERAL OBLIGATION DEBT MARGIN FOR GENERAL COUNTY PURPOSES	\$ 4,474,097,897

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**NOTE 12 – CONTINUED****Refunding and Defeasing General Obligation Bond Issues – 2002**

Limited Tax General Obligation (Baseball Stadium) Refunding Bonds, 2002 – On June 4, 2002, the County issued \$124,575,000 in Limited Tax General Obligation (Baseball Stadium) Bonds with an average interest rate of 5.45 percent to advance refund \$121,365,000 of outstanding Limited Tax General Obligation (Baseball Stadium) Bonds - 1997B serial bonds with an average interest rate of 6.10 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1997B bonds. As a result, the 1997B Series bonds are considered to be defeased and the liability for those bonds has been removed from the governmental activities column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$11,432,820. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$23,393,801 and resulted in an economic gain of \$6,080,074.

Limited Tax General Obligation (Public Transportation Sales Tax) Refunding Bonds, 2002 – On November 5, 2002, the County issued \$64,285,000 in Limited Tax General Obligation Bonds with an average interest rate of 5.28 percent to advance refund \$69,235,000 of outstanding Metro Sales Tax Limited Tax General Obligation Bonds - 1993 Serial bonds with an average interest rate of 5.62 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the 1993 bonds. As a result, the 1993 bonds are considered to be defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$3,069,056. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$6,386,643 and resulted in an economic gain of \$4,195,004.

Partial Defeasance of Limited Tax General Obligation (Baseball Stadium) Bonds, 2002 – On December 20, 2002, the County completed a partial defeasance of \$7,040,000 of Limited Tax General Obligation (Baseball Stadium) Refunding bonds, 2002 using the excess proceeds from special taxes and revenues. The advance defeasance resulted in the recognition of an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$628,054 for the year ended December 31, 2002.

**Refunding Water Quality Revenue Bond Issues – 2002**

Sewer Revenue Refunding Bonds, 2002B – On October 3, 2002, the County issued \$346,130,000 of Sewer Revenue Bonds Series 2002B with an average interest rate of 5.26 percent to advance refund \$360,490,000 of outstanding Sewer Revenue Bonds – 1993X, 1993Y and 1993Z Serial bonds with an average interest rate of 5.50 percent. The net proceeds were used to purchase US government securities which were deposited with an escrow agent to provide for all future debt service payments on the Revenue Bonds series 1993X, 1993Y and 1993Z bonds. As a result, the 1993X, 1993Y and 1993Z bonds are considered to be defeased and the liability for those bonds has been removed from the business-type column of the statement of net assets.

The reacquisition price exceeded the net carry amount of the old debt by \$15,305,384. This amount is being netted against the new debt and amortized over the remaining life of the new

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 12 – CONTINUED**

debt, which is shorter than the old debt issued. This advance refunding was undertaken to reduce total debt service payments over the life of the bonds by \$29,253,547 and resulted in an economic gain of \$16,395,731.

**Refunded Bonds**

King County has a total of 19 outstanding refunded and defeased bond issues of limited and unlimited tax general obligation bonds and revenue bonds, which were originally reported in the governmental and business-type activities of the statement of net assets. The payment of principal and interest on these bond issues is the responsibility of the escrow agent, the US Bank of Washington.

The following is a schedule of refunded bonds outstanding as of December 31, 2002.

	Governmental Activities	Business-type Activities
Limited Tax G.O. Refunded Bonds	\$ 203,659,000	\$ 229,556,000
Unlimited Tax G.O. Refunded Bonds	44,775,000	-
Revenue Bonds	-	450,490,000
Totals	<u>\$ 248,434,000</u>	<u>\$ 680,046,000</u>

**Future Borrowing Plans**

During the first quarter of 2003 the County has completed the sale of two refunding bond issues. It sold \$108,790,000 of unlimited tax general obligation bonds to refund the outstanding 1993C bonds and \$96,470,000 of Sewer Revenue bonds to refund the 1995 double barreled bonds.

The County has identified the need to issue approximately \$300 million of new limited tax general obligation bonds over the next five years. The proceeds of these bonds are expected to provide funds to finance the Transit Division's capital improvement program (\$100 million), road improvements (\$80 million), the seismic retrofit of the King County Courthouse (\$80 million), the construction of a new Regional Communications and Emergency Control Center (\$32 million), and various other purposes. The bonds expected to be issued on behalf of the Transit Division's capital improvement program (\$100 million) will be additionally secured by the sales tax revenues dedicated to transit.

Sometime in 2004, the County plans to issue the remaining \$164 million of the \$193 million of unlimited tax general obligation bonds that were approved by voters to provide funding for seismic improvements to the Harborview Medical Center.

For much of the balance of the decade the County will need to issue approximately \$200 million of new debt annually to provide continuing funding for its Wastewater Treatment Division's capital improvement program. These bonds are likely to be secured solely by revenues of the Wastewater Treatment Division.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 13 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

**Interfund Receivables and Payables**

Due from/to other funds and interfund short-term loans receivable and payable

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Public Health Fund	\$ 152,407
	Nonmajor Governmental Funds	13,393,012
	Investment Trust Funds	10,150,279
	All Others <sup>(a)</sup>	230,625
Public Health Fund	General Fund	200,000
	Nonmajor Governmental Funds	125,241
	Nonmajor Enterprise Funds	101,848
	All Others <sup>(a)</sup>	6,355
Nonmajor Governmental Funds	General Fund	2,196,233
	Public Health Fund	779,932
	Nonmajor Governmental Funds	28,779,170
	Public Transportation Fund	4,880
	Water Quality Fund	2,730,657
	Nonmajor Enterprise Funds	1,072,233
	Internal Service Funds	1,655,258
Public Transportation Fund	Nonmajor Governmental Funds	205,289
	All Others <sup>(a)</sup>	116,617
Water Quality Fund	All Others <sup>(a)</sup>	211,129
Nonmajor Enterprise Funds	Nonmajor Governmental Funds	530,838
	Nonmajor Enterprise Funds	227,106
	All Others <sup>(a)</sup>	98,163
Internal Service Funds	General Fund	664,119
	Nonmajor Governmental Funds	1,108,556
	Public Transportation Fund	245,862
	Water Quality Fund	498,579
	Internal Service Funds	293,104
	All Others <sup>(a)</sup>	38,003
Agency Funds	Agency Funds	208,388
Total		<u>\$ 66,023,883</u>

The interfund balances resulted from the time lag between the dates: (1) when interfund goods and services were provided or reimbursable expenditures incurred, and when interfund payments were made; and (2) when interfund short-term loans were made and when the loans were repaid.

Advances from/to other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 300,000
Public Transportation Fund	Nonmajor Governmental Funds	778,340
Total		<u>\$ 1,078,340</u>

(a) Multiple fund types with account balances of less than \$100,000 are aggregated into "All Others."

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 13 – CONTINUED**

The advance of \$300,000 from the General Fund to nonmajor governmental funds was a loan made for the purpose of cash flow and is not scheduled to be repaid next year. The advance of \$778,340 from the Public Transportation Fund to nonmajor governmental funds was for the purpose of acquiring capital assets. \$618,906 of the balance is not scheduled to be collected next year.

**Interfund Transfers**

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Public Health Fund	\$ 16,117,252
	Nonmajor Governmental Funds	18,781,588
	Nonmajor Enterprise Funds	251,226
	Internal Service Funds	1,003,005
Public Health Fund	All Others <sup>(a)</sup>	13,177
Nonmajor Governmental Funds	General Fund	868,749
	Nonmajor Governmental Funds	77,731,561
	Internal Service Funds	117,171
Public Transportation Fund	General Fund	101,112
	Nonmajor Governmental Funds	416,897
	All Others <sup>(a)</sup>	12,245
Water Quality Fund	Nonmajor Governmental Funds	420,334
	Internal Service Funds	12,246
	All Others <sup>(a)</sup>	11,429
Nonmajor Enterprise Funds	General Fund	105,585
	Nonmajor Governmental Funds	610,931
Internal Service Funds	General Fund	1,068,347
	Nonmajor Governmental Funds	1,257,999
	Public Transportation Fund	5,055,630
	Internal Service Funds	250,438
	All Others <sup>(a)</sup>	70,195
Total transfers in		124,277,117
Transfers out of capital assets:		
To Public Transportation Fund from internal service funds		3,341,673
To internal service funds from Water Quality Fund		320,856
To internal service funds from internal service funds		34,923
Total transfers out		<u>\$ 127,974,569</u>

Transfers are used to move resources from a fund collecting them to the fund using them as required by statute or budget. In the fund financial statements, total transfers out of \$127,974,569 are greater than total transfers in of \$124,277,117 because of transfers of capital assets. In 2002, an internal service fund was closed. The responsibility of its operation and residual equity of \$8,397,303 were transferred to the Public Transportation Fund. Since \$3,341,673 of the residual equity transferred was related to capital assets, the Public Transportation Fund reported a capital contribution of \$3,341,673 and a transfer in of \$5,055,630 and the internal service fund recorded a transfer out of \$8,397,303. During the year, internal service funds reported capital contributions of \$320,856 and \$34,923 for the capital assets received from the Water Quality Fund and other internal service funds, respectively. The contributing funds reported the same amounts of transfers out.

(a) Multiple fund types with account balances of less than \$100,000 are aggregated into "All Others."

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – RESTRICTIONS, RESERVES, DESIGNATIONS, AND CHANGES IN EQUITY****Net Assets**

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are classified into three categories:

- *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes and other debt that are attributed to the acquisition, construction, or improvement of those assets.
- *Restricted net assets* results when constraints are placed on net asset use either by external parties or by law through constitutional provision or enabling legislation.
- *Unrestricted net assets* consists of net assets that do not meet the definition of the two preceding categories.

**Restricted Net Assets – Other purposes**

\$ 310,199,848	Public Transportation Enterprise restricted for future construction projects (\$268,968,481) and debt service (\$41,231,367).
74,145,082	Water Quality Enterprise restricted for debt service.
21,652,581	King County International Airport Enterprise restricted for future construction projects.
1,518,315	Radio Communications Enterprise restricted for construction.
<u>192,980</u>	Sewer Utility Enterprise bond restrictions.
<u>\$ 407,708,806</u>	Total Business-type Restricted Net Assets – Other purposes

**Reserves and Designations**

King County records two general types of reserves. One type indicates that a portion of the fund balance is legally segregated for a specific future use; the other type indicates that a portion of the fund balance is not available for appropriation. Designated fund balances represent tentative plans (including those plans prescribed by local ordinance) for future use of financial resources.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

Following is a list of all reserves and designations used by King County and a description of each:

**Reserved Fund Balances**

	GENERAL FUND	PUBLIC HEALTH FUND	NONMAJOR SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Reserved for:					
Inventory	\$ -	\$ 3,172,068	\$ -	\$ -	\$ -
Prepayments	-	-	-	-	96,388
Encumbrances	4,867,134	930,270	12,830,105	-	98,532,586
Advances to other funds	300,000	-	-	-	-
Animal services	329,136	-	-	-	-
Crime victim compensation program	1,068,950	-	-	-	-
Drug enforcement program	181,684	-	-	-	-
Antiprofitteering program	393,580	-	-	-	-
Dispute resolution	67,245	-	-	-	-
Inmate welfare	1,315,446	-	-	-	-
Laptop replacement	733,858	-	-	-	-
Real property title assurance	25,152	-	-	-	-
Managed care risk pool	-	500,000	-	-	-
Training and equipment for Medic One	-	214,483	-	-	-
Arts and cultural development endowment	-	-	3,953,146	-	-
PFD stadium bond debt service	-	-	-	10,181,598	-
PFD stadium bond debt service - escrow	-	-	-	7,054,184	-
Total reserved fund balances	<u>\$ 9,282,185</u>	<u>\$ 4,816,821</u>	<u>\$ 16,783,251</u>	<u>\$17,235,782</u>	<u>\$ 98,628,974</u>

Reserved for inventory – This account is used to segregate a portion of fund balance in the amount of the inventory of supplies carried as an asset; it represents resources that are not available and spendable for the fund's current operations.

Reserved for prepayments – This account is used to segregate a portion of fund balance equal to the asset prepayments; it does not represent available, spendable resources for the fund's current operations.

Reserved for encumbrances – This account is used for commitments made for goods or services before year-end that have not been delivered or completed as of year-end. The budget for these commitments will be reestablished in the new year without reappropriation.

Reserved for advances to other funds – This account is used to segregate a portion of fund balance for advances to other funds (the noncurrent portion of interfund loans receivable) to indicate that they do not constitute available financial resources and are not available for appropriation.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

Reserved for animal services – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding the Animal Services program, which promotes and enforces the humane treatment of the animal population of King County.

Reserved for Crime Victim Compensation Program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted to the Crime Victim Compensation Program and are not spendable resources for other expenditures.

Reserved for drug enforcement program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of enhancing enforcement of the Uniform Controlled Substances Act, chapter 69.50 RCW, or other laws regulating controlled substances, including training, equipment, and operational expenses.

Reserved for antiprofitteering program – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purposes of the investigation and prosecution of any offense included in the definition of criminal profiteering set forth in chapter 9A.82 RCW.

Reserved for dispute resolution centers – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of funding dispute resolution centers.

Reserved for inmate welfare – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the welfare of inmates held by the Department of Adult and Juvenile Detention.

Reserved for laptop replacement – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of replacing laptop computers used by police officers.

Reserved for real property title assurance – This account is used to segregate a portion of fund balance to indicate that resources are legally restricted solely for the purpose of the payment of damages to any person sustaining loss or damage, through any omission, mistake, or misfeasance of the registrar of titles, or of any examiner of titles, or of any deputy, or by the mistake or misfeasance of the clerk of the court, or any deputy, in the performance of their respective duties under the provisions of chapter 65.12 RCW Registration of Land Titles (Torrens Act).

Reserved for managed care risk pool – Seattle-King County Department of Public Health is affiliated with Blue Cross/Carenet and the Community Health Plan of Washington (CHPW) in order to provide care to approximately 8,000 Healthy Options Managed Medicaid enrollees. For CHPW enrollees, the Health Department shares a portion of the risk for the continuum of care to those individuals and families. In addition to the risk of providing primary care within a fixed capitation (a fixed payment per enrollee per month, independent of the primary care utilization), the Health Department is also at risk for provision of specialty services and hospital care. Specifically, the Health Department is responsible for a portion of losses not covered by



**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

the specialty and hospital pools held by the plans or by reinsurance for extraordinary costs. In order to plan for those potential losses, maintenance of a risk reserve pool is required.

Reserved for training and equipment for Medic One – This account is used to segregate a portion of fund balance to indicate that the use of donations from individuals to Medic One are restricted to equipment purchases and training for paramedics and medical services officers.

Reserved for arts and cultural development endowment – This account is being used, pending the establishment of a Permanent Fund, to segregate the Hotel/Motel tax revenues distributed to the Arts and Cultural Development Fund pursuant to RCW 67.28.180.3(e), for the purpose of establishing an endowment.

Reserved for PFD Stadium bond debt service – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-1, 1997B, 1997D, and 2002 Refunding tax exempt Baseball Stadium bond issues.

Reserved for PFD Stadium bond debt service – escrow – This account is used to segregate the revenues collected by the County that are earmarked for future debt service payments on the 1997A-2 and 1997C taxable Baseball Stadium bond issues.

**Designated Fund Balances**

	GENERAL FUND	PUBLIC HEALTH FUND	NONMAJOR SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
Designated for:					
Equipment replacement	\$ -	\$ -	\$ 4,997,712	\$ -	\$ -
Capital projects	206,579	-	314,331	-	-
FEMA match	-	-	119,607	-	-
Insurance/inpatient	-	-	2,768,452	-	-
Reappropriation	2,772,175	496,476	6,450,900	-	-
Net unrealized gains	3,535,573	-	1,446,471	246,643	2,353,051
Contingencies	15,000,000	-	-	-	-
Children and family services program	86,595	-	-	-	-
Total designated fund balances	<u>\$ 21,600,922</u>	<u>\$ 496,476</u>	<u>\$ 16,097,473</u>	<u>\$ 246,643</u>	<u>\$ 2,353,051</u>

Designated for equipment replacement – This account is used to indicate that a portion of fund balance has been earmarked for the replacement of equipment.

Designated for capital projects – This account is used to identify a portion of fund balance in General and Special Revenue Funds equal to the budget for capital projects not expended and expected to be reappropriated for the coming year. The projects may be decreased, increased, and changed in scope by the County Council in their budget deliberations.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

Designated for FEMA match – This account is used to identify a portion of fund balance in the Flood Control Zone Districts Fund that has been designated for future use as a local match for federal and state grants in the event of a federally-declared flood disaster.

Designated for insurance/inpatient – This account sets aside funds used to cover inpatient adjustments, outpatient tier benefits and closeout expenditures if the King County Regional Services Network (KCRSN) becomes insolvent. The KCRSN is funded primarily by capitated payment and consolidated revenues. The capitated revenue for Prepaid Health Plan (PHP) services is based on the number of Medicaid recipients in King County. The consolidated revenues are expended for the PHP services for adults and children, as well as other services required to support people with mental illness in King County.

Designated for reappropriation – This account is used at year-end for lapsed appropriations for which special requests have been made to obtain reappropriation in the coming year.

Designated for net unrealized gains – This account is used to segregate the portion of fund balance representing unrealized gains and losses on investment holdings. GASB 31 now requires governments to report investments at fair values and to charge investment income for the change in fair value of investments at the end of the year.

Designated for contingencies – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by county ordinance for the following: (1) maintenance of essential county services in the event that General Fund revenue collections in a given fiscal year are less than 97 percent of adopted estimated revenues; (2) payment of legal settlements relating to the collection of past General Fund revenues; (3) catastrophic losses in excess of the Insurance Fund reserve and all other fund balances; and (4) requests for priority capital maintenance projects if and when the contingencies reserve exceeds \$15 million.

Designated for children and family services programs – This account is used to segregate a portion of fund balance to indicate that resources have been earmarked by county ordinance to provide children and family services to the residents of King County.

**Management Plans for Internal Service Fund Unrestricted Net Assets**

The following Internal Service Funds have unrestricted net assets that have been earmarked by county management for a specific future use as of December 31, 2002:

Information and Telecommunication Services Fund – Data Processing Sub-fund – \$920,215 has been earmarked by management for the replacement of electronic data processing equipment.

Information and Telecommunications Services Fund – Telecommunications Sub-fund – \$1,671,145 has been earmarked by management for the replacement of telecommunications equipment.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

Insurance Fund – \$16,417,528 has been earmarked for catastrophic losses. The catastrophic loss reserve will be used to respond to large, non-recurring losses exceeding \$1 million per incident.

Motor Pool Equipment Rental Fund – \$11,268,354 has been earmarked by management for the replacement of rental equipment.

Printing/Graphic Arts Services Fund – \$150,000 has been earmarked by management for the replacement of printing equipment.

Public Works Equipment Rental Fund – \$10,360,499 has been earmarked by management for the replacement of rental equipment.

Wastewater Equipment Rental Fund – \$3,789,369 has been earmarked by management for the replacement of rental equipment.

**Restatements of Beginning Balances**

General Fund and the Public Health Fund

In 2002, as a result of the implementation of GASB 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, balances which were formerly reported as liabilities in Fiduciary Funds henceforth will be accounted for in the General Fund and the Public Health Fund. The December 31, 2001, balances of these accounts were transferred to the funds, restating the beginning fund balances as follows:

	General Fund	Public Health Fund
Fund Balance – December 31, 2001	\$ 82,743,297	\$ 5,679,176
Animal services donations	275,258	
Real property title assurance reserves	25,152	
Medic One donations for training and equipment	<u>                    </u>	<u>214,483</u>
Fund Balances – January 1, 2002 (Restated)	<u>\$ 83,043,707</u>	<u>\$ 5,893,659</u>

Capital Projects Funds

The prior period adjustment is due to a change in the accounting for arbitrage earnings at the fund level where a liability is recognized at the time when excess interest is earned. Beginning in 2002 the arbitrage liability is recognized only when it is due and payable.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

<u>Capital Projects Fund</u>	<u>Fund Balance 12/31/01</u>	<u>Prior Period Adjustment</u>	<u>Fund Balance 01/01/02</u>
Arts and Historic Preservation	\$ 1,785,012	\$ 61,936	\$ 1,846,948
Arts Construction	1,266,773	20,082	1,286,855
Building Construction and Improvement	(9,838,506)	283,315	(9,555,191)
Building Repair and Replacement	2,773,442	497,373	3,270,815
Cable Communications	1,973,133	289,154	2,262,287
Capital Acquisition & County Facilities Renovation	1,342,541	111,105	1,453,646
Farmland and Open Space Acquisition	2,473,563	5,933	2,479,496
Major Maintenance Reserve	13,689,668	614	13,690,282
Parks CIP	1,292,527	10,490	1,303,017
Parks, Recreation, and Open Space	(697,658)	58,893	(638,765)
Public Art	3,061,039	2,165	3,063,204
Renton Maintenance Facility	3,325,782	350	3,326,132
Surface Water Management Construction	11,259,696	191,437	11,451,133
Technology 1997 Bonds	2,255,756	1,163,509	3,419,265
Technology Systems Capital	2,953,307	112,120	3,065,427
Working Forest	592,309	1,887	594,196
Other Capital Projects Funds	<u>81,637,125</u>	<u>-</u>	<u>81,637,125</u>
Total	<u><u>\$ 121,145,509</u></u>	<u><u>\$ 2,810,363</u></u>	<u><u>\$ 123,955,872</u></u>

Nonmajor Enterprise Funds

King County acquired the land on which the Cedar Hills Regional Landfill is located from the State of Washington in 1992. The land was incorrectly recorded as an asset of the Solid Waste Enterprise Fund. The land should have been recorded as a general fixed asset of the County. The 2002 Land balance has been corrected, resulting in the following restatement of beginning Net Assets:

	<u>Nonmajor Enterprise Funds</u>	<u>Solid Waste</u>
Net Assets - December 31, 2001	\$175,783,344	\$ 89,470,064
1992 Capitalization of Land	<u>(3,457,400)</u>	<u>(3,457,400)</u>
Net Assets - January 1, 2002 (Restated)	<u><u>\$172,325,944</u></u>	<u><u>\$ 86,012,664</u></u>

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 14 – CONTINUED**

**Component Unit – Harborview Medical Center**

Restricted Assets

Harborview Medical Center restricted assets consists of the following:

\$ 41,087,068	HMC Construction Fund (a restricted fund) – Consists of monies from the 1976, 1988, 1993, and 2000 General Obligation Bond issues that are restricted for construction, improvements, and furnishing of the trauma center and other HMC buildings.
5,438,703	HMC Special Purpose Fund (a restricted fund) – Consists of restricted donations, gifts, and bequests from various sources for specific purposes.
26,158,277	Board-designated assets of HMC Operating Fund (a general fund) – Consists of resources designated for specific purposes, including \$19,067,967 for planned capital and service component; \$1,346,231 for trauma center equity; \$17,431 for commuter services; \$3,844,881 in net fixed assets held for future use; and \$1,881,767 for others.
14,202,665	Board-designated assets of HMC Plant Fund (a general fund) – Consists of resources designated for building improvements, furnishings, and repair and replacement. This fund includes the liability for the 1993 General Obligation Bonds for HMC building construction and equipment acquisition.
<hr/>	
<u>\$ 86,886,713</u>	Total HMC restricted assets.

Restricted Net Assets

Restricted expendable net assets – the \$46,080,355 consists of investments restricted for capital use and by donor. Access to investments restricted for capital use is restricted by King County for designated capital projects. Investments restricted by donor represents assets that are restricted by creditors, grantors, or contributors external to the HMC

Restricted nonexpendable net assets – the \$445,416 consists of permanent endowments by donors.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

**NOTE 14 – CONTINUED**

**Component Unit – WSMLB Stadium Public Facilities District (PFD)**

Restatement of Beginning Balances

The 2001 independent audit for the Washington State Major League Baseball Stadium Public Facilities District (PFD) was completed after the King County Comprehensive Annual Financial Report (CAFR) was issued. 2001 PFD statements were adjusted after publication in the 2001 CAFR.

**STATEMENT OF REVENUES AND EXPENSES**

	<u>COMPONENT UNIT</u> PFD 2001 CAFR	Required Revisions to 2001 CAFR	<u>COMPONENT UNIT</u> PFD 2001 CAFR (Restated)
TOTAL OPERATING REVENUES	\$ 723,800	\$ -	\$ 723,800
TOTAL OPERATING EXPENSES	12,442,093	-	12,442,093
OPERATING LOSS	(11,718,293)	-	(11,718,293)
NONOPERATING REVENUES			
Interest earnings	981,121	-	981,121
Gain on sales of assets	-	1,022,584	1,022,584
TOTAL NONOPERATING REVENUES	981,121	1,022,584	2,003,705
NET INCOME (LOSS)	(10,737,172)	1,022,584	(9,714,588)
Depreciation on property and equipment acquired from capital grants/contributions	12,219,026	-	12,219,026
RETAINED EARNINGS INCREASE	1,481,854	1,022,584	2,504,438
Retained earnings, Beginning of Fiscal Year	43,685,078	-	43,685,078
Retained earnings, End of Fiscal Year	45,166,932	1,022,584	46,189,516
Contributions, End of Fiscal Year	437,497,520	(1,919,599)	435,577,921
FUND EQUITY - END OF FISCAL YEAR	\$ 482,664,452	\$ (897,015)	\$ 481,767,437

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2002**

**NOTE 14 – CONTINUED****BALANCE SHEET**

	<u>COMPONENT UNIT</u> PFD 2001 CAFR	Required Revisions to 2001 CAFR	<u>COMPONENT UNIT</u> PFD 2001 CAFR (Restated)
ASSETS AND OTHER DEBITS			
Current assets			
Cash and cash equivalents	\$ 17,603,640	\$ -	\$ 17,603,640
Accounts receivable	58,987	405,000	463,987
Total current assets	<u>17,662,627</u>	<u>405,000</u>	<u>18,067,627</u>
Capital assets			
Land	39,800,469	(1,302,015)	38,498,454
Buildings	488,841,352	-	488,841,352
Improvements other than buildings	4,060,986	33,810	4,094,796
Furniture, machinery and equipment	46,150	-	46,150
Accumulated depreciation	(30,584,608)	-	(30,584,608)
Total capital assets	<u>502,164,349</u>	<u>(1,268,205)</u>	<u>500,896,144</u>
TOTAL ASSETS AND OTHER DEBITS	<u>\$ 519,826,976</u>	<u>\$ (863,205)</u>	<u>\$ 518,963,771</u>
LIABILITIES, FUND EQUITY AND OTHER CREDITS			
Total current liabilities	\$ 390,555	\$ -	\$ 390,555
Long-term liabilities			
Other long-term liabilities	36,771,969	33,810	36,805,779
Total liabilities	<u>37,162,524</u>	<u>33,810</u>	<u>37,196,334</u>
Fund equity and other credits			
Contributions	437,497,520	(1,919,599)	435,577,921
Retained earnings			
Unreserved	45,166,932	1,022,584	46,189,516
Total retained earning/fund balances	<u>45,166,932</u>	<u>1,022,584</u>	<u>46,189,516</u>
Total fund equity and other credits	<u>482,664,452</u>	<u>(897,015)</u>	<u>481,767,437</u>
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	<u>\$ 519,826,976</u>	<u>\$ (863,205)</u>	<u>\$ 518,963,771</u>

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002

**NOTE 14 – CONTINUED**

**STATEMENT OF CASH FLOWS**

	<u>COMPONENT UNIT</u> PFD 2001 CAFR	Required Revisions to 2001 CAFR	<u>COMPONENT UNIT</u> PFD 2001 CAFR (Restated)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 148,759</u>	<u>\$ -</u>	<u>\$ 148,759</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	(81,154)	-	(81,154)
Proceeds from sale of capital assets		1,919,599	1,919,599
Refunds of contributions and donations	(659,947)	(1,919,599)	(2,579,546)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(741,101)</u>	<u>-0-</u>	<u>(741,101)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,362,687</u>	<u>-0-</u>	<u>1,362,687</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	770,345	-0-	770,345
CASH AND CASH EQUIVALENTS - BEGINNING OF FISCAL YEAR	<u>16,833,295</u>	<u>-</u>	<u>16,833,295</u>
CASH AND CASH EQUIVALENTS - END OF FISCAL YEAR	<u>\$ 17,603,640</u>	<u>\$ -0-</u>	<u>\$ 17,603,640</u>



**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 15 - LEGAL MATTERS/CONTINGENT LIABILITIES**

**Primary Government**

There is no litigation currently pending or probable of assertion against King County in which, to our knowledge, the likelihood of an unfavorable outcome with material damages (in excess of \$500,000) assessed against King County is probable, as explained in Paragraph 5.2 of the Commentary to the ABA Statement of Policy Regarding Lawyers' Responses to Auditors' Requests for Information (February 1990) and Financial Accounting Standards Board Statement 5, *Accounting for Contingencies*.

The following litigation, or threatened litigation, may involve claims for material damages against King County for which the County is unable to provide an opinion as to the ultimate outcome or the amount of damages that may be found:

- A federal declaratory judgment action filed by a contractor (by substitution) who worked on the Alki Transfer/CSO project contract alleging \$1 million in claims for adjustments to the contract sums.
- A class action lawsuit alleging violation of County ordinances and state law regarding plaintiffs' salary and employment with the County. Plaintiffs seek remuneration in the form of back pay, prejudgment interest, double damages, and attorneys' fees on behalf of an uncertified class. The case has been remanded to the Superior Court after the Washington Supreme Court denied the County's motion for discretionary review.
- A lawsuit by a group of part-time transit operators alleging they were denied certain employment benefits and are seeking back pay, prejudgment interest, double damages, and attorneys' fees. This was the second lawsuit filed by the same plaintiffs following the denial of their appeal with the Superior Court, which determined that they are not eligible for damages under the Logan vs. King County settlement agreement.
- A class action lawsuit alleging violation of state law regarding payment of wages to hourly employees in the King County Sheriff's Office. Plaintiffs are seeking double damages, prejudgment interest, and attorney's fees.
- A lawsuit filed by County employees claiming the County owes them retroactive pay for a certain time interval. Plaintiffs also seek attorney's fees and double damages.
- Two separate notices of intent to sue received by the County related to sedimentation problems in Coal Creek Park, which is owned by the County. These cases allege violations of three federal acts: the Federal Clean Water Act, Endangered Species Act, and Solid Waste Disposal Act, and other state statutes. Plaintiffs seek injunctive relief to existing and possible future occurrences and a claim for damages in the amount of \$760,000 for costs of dredging and disposing of sediment materials, which settled on private property.
- A classification lawsuit alleging violation of state law regarding payment of wages for employees paid under the MSA payroll system. Plaintiffs seek back pay, prejudgment interest, double damages, attorney's fees, and injunctive relief on behalf of an uncertified class.
- A class action lawsuit alleging violation of the Washington Industrial Welfare Act regarding the provision of paid lunch breaks for certain employees of the Department of Adult and Juvenile Detention. Plaintiffs seek back pay, double damages, prejudgment interest, attorneys' fees, and declaratory relief.

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2002**

**NOTE 15 - CONTINUED**

- A lawsuit by a property owner contesting the land use designation assigned by the County to his property under the King County Comprehensive Plan. Plaintiff claims that the designation as agricultural resource land is not consistent with the surrounding property, which is predominantly light industrial, and has the effect of inversely condemning his property. He seeks damages equivalent to the difference of the property value under the agricultural designation and the value under the light industrial designation.
- A lawsuit arising out of the South Interceptor Parallel – Phase III project filed by a contractor against King County and Puget Sound Energy. Originally, the contractor filed a claim for \$2.2 million against the County due to incidental damages that arose out of the County's sewer project. The County has, in turn, presented substantially the same claim and tendered the defense of the lawsuit to the contractor's insurers.
- A class action lawsuit alleging the County failed to properly compensate transit operators for travel time. Class seeks back wages, double damages, and attorneys fees.
- A class action lawsuit challenging the legality of the permit review fees assessed by the County's Department of Development and Environmental Services. Plaintiffs seek declaratory and injunctive relief and a refund of fees that were allegedly overcharged.

**Contingent Liabilities**

King County has entered into several contingent loan agreements totaling \$51,515,000 with the King County Housing Authority (KCHA) and other owners/developers of affordable housing. The County has provided credit support in the form of reserve guarantees for certain bonds issued by KCHA. All projects are currently self-supporting and the County has made no loans pursuant to these agreements.

**Component Unit - Harborview Medical Center**

Harborview Medical Center (HMC) is involved in litigation arising in the course of business. It is HMC management's opinion, however, that these matters will be resolved without material adverse effect to HMC's future financial position or results of operations.

The current regulatory environment in the healthcare industry is one of increasing governmental activity with respect to investigations and allegations concerning possible violations of regulations by healthcare providers that could result in the imposition of significant fines and penalties, including significant repayments of patient services previously billed. HMC management believes that it complies with the fraud and abuse regulations, as well as other laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation and regulatory actions unknown or unasserted at this time.

HMC is operated by the University of Washington under a management and operations contract with King County. In this contract, the University of Washington agrees to defend, indemnify and save harmless King County, its elected and appointed officials, employees, and agents from and against any damage, cost, claim, or liability arising out of the negligent acts or omissions of the University, its employees or agents, or arising out of the activities or operations of the medical center.

## REQUIRED SUPPLEMENTARY INFORMATION

### Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach

#### Roads

The County performs condition assessments on its network of roads through the King County Pavement Management System. This system generates a Pavement Condition Index (PCI) for each segment of arterial and local access road in the network. The PCI is a numerical index from zero to one hundred (0–100) that represents the pavement's functional condition based on the quantity, severity, and type of visual distress, such as pavement cracking. Based on the PCI score, condition ratings are assigned as follows: a PCI of less than 40 is defined as poor to substandard (heavy pavement cracking and potholes); a PCI of between 40 and 50 is defined to be in "Fair" condition (noticeable cracks and/or utility cuts); and a PCI of between 50 and higher is defined to be in "Good" or better condition (relatively smooth roadway). Condition assessments are undertaken every two years. It is the policy of the King County Roads Division to maintain at least 80 percent of the road system at a PCI of 40 or better.

The most recent condition assessments of the County's roads are shown below.

<u>PCI CONDITION RATING</u>	<u>2001</u>		<u>2000</u>		<u>1999</u>	
	<u>Length (miles)</u>	<u>%</u>	<u>Length (miles)</u>	<u>%</u>	<u>Length (miles)</u>	<u>%</u>
<i>Arterial roads</i>						
Excellent to good	448	83	-	-	674	88
Fair	44	8	-	-	55	7
Poor to substandard	45	9	-	-	41	5
Total	<u>537</u>	<u>100</u>	<u>-</u>	<u>-</u>	<u>770</u>	<u>100</u>
<i>Local access roads</i>						
Excellent to good	-	-	969	76	-	-
Fair	-	-	168	13	-	-
Poor to substandard	-	-	135	11	-	-
Total	<u>-</u>	<u>-</u>	<u>1,272</u>	<u>100</u>	<u>-</u>	<u>-</u>

The majority of roads that fall below the established rating (PCI = 40) are local access roads that are situated in rural areas.

Below is information on planned (budgeted) and actual expenditures incurred to maintain and preserve the road network at or above the minimum acceptable condition level from 1999 to 2002. The budgeted amount is equivalent to the anticipated amount needed to maintain the roads up to the required condition level.

	<u>Road network maintenance and preservation expenditures</u>			
	<u>(amounts in millions)</u>			
	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Budgeted	37.04	34.47	31.48	28.19
Expended	34.95	34.39	32.02	27.35

Underspending of budgeted amounts is a result of roads removed from the project list because of conflicts with anticipated utility work, cost efficiencies related to a few roads to be resurfaced in remote locations, and weather-related work reduction or stoppages.

## **Condition Assessments and Preservation of Infrastructure Eligible for Modified Approach – Continued**

### Bridges

King County currently maintains 181 bridges. Physical inspections to determine the condition of the bridge and the degree of wear and deterioration are carried out at least every two years. Inspections reveal deficiencies in bridges such as steel corrosion, damaged guardrails, rotten timbers, deteriorated bridge decks, bank erosion, and cracked concrete. These are documented in an inspections report along with recommended repairs and needed services.

Each year the County undergoes a bridge prioritization process to determine potential candidates for replacement or rehabilitation. A weighted 10-point priority scale (sufficiency rating, seismic rating, geometrics, hydraulics, load limits, traffic safety, serviceability, importance, useful life, and structural concern) ranks the bridges in order, the results of which are considered in the planning and programming of major bridge studies and construction projects in the Roads Capital Improvement Program.

A key element in the priority scale is the sufficiency rating, the measure considered by state and federal governments as the basis for establishing eligibility and priority for bridge replacement or rehabilitation. Sufficiency rating is a numerical rating of a bridge based on its structural adequacy and safety, essentiality for public use, and its serviceability and functional obsolescence. This index may vary from 100 (a bridge in new condition) to 0 (a bridge incapable of carrying traffic). A sufficiency rating of 50 or over indicates a bridge with a good deal of service life remaining. A bridge that scores between 0 and 49 would be considered for replacement funding evaluation, though typically only bridges that score less than 30 are selected for Federal replacement funding.

It is the policy of the King County Roads Division to maintain bridges in such a manner that no more than 12 will have a sufficiency rating of 20 or less. A rating of 20 or less is usually indicative of a bridge with a structural deficiency. The most common remedy is full replacement or rehabilitation of the bridge. As of December 31, 2002, there were 11 bridges in this category, 7 of which are currently funded for a major upgrade in the Roads Capital Improvement Program.

Below is a summary of bridge sufficiency rating scores for the years 1999-2001.

Sufficiency rating	Number of bridges		
	2001	2000	1999
0 - 20	10	9	5
21 - 30	4	5	4
31 - 49	22	23	23
50 - 100	149	149	161
Total	181	181	189

Amounts budgeted and spent to maintain and preserve bridges from 1999-2002 are shown below. The budgeted amount is equivalent to the anticipated amount needed to maintain and preserve the bridges up to the required condition level.

	(amounts in millions)			
	2002	2001	2000	1999
Budgeted	\$ 4.21	\$ 4.28	\$ 3.87	\$ 3.04
Expended	3.83	3.78	2.09	2.39

Backlogs in maintenance work orders greatly affect the trend in maintenance cost. Backlogs could result from increased bridge traffic, higher weight loads, manpower shortages, stringent environmental restrictions, and an aging bridge inventory.

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